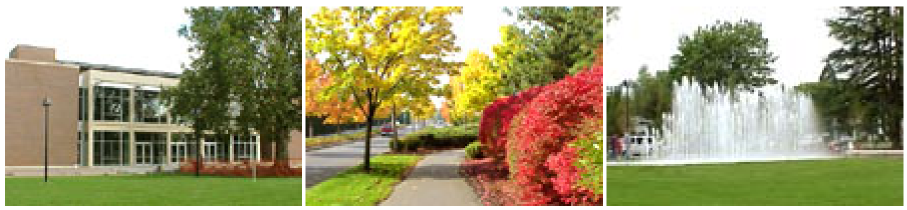
BEAVERTON URBAN RENEWAL FEASIBILITY STUDY REPORT



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JANUARY 19, 2010

This draft feasibility study report is, at this time, only a technical document. It reflects some staff review, but not yet the involvement of the public or elected and appointed officials of the taxing districts that would be affected by the tax increment financing of an urban renewal plan. Included in the "Conclusions and Possible Next Steps" section is our note that the feasibility study process should be a way of involving and informing the community, and we anticipate that staff will undertake this effort.

I. INTRODUCTION

Beaverton has all of the features of a mature city, with excellent public facilities, a strong economic base, a broad range of housing and employment opportunities and a transportation system linking it to downtown Portland and other communities. One aspect of Beaverton's development which has been slow to evolve is the Regional Center area. In the zoning and comprehensive plan designations, the public objectives for this area are to promote an urban style of development. Yet, most of the retail and service developments that have occurred are suburban in character, as they were developed prior to the urban transportation system.

In particular, the Regional Center lacks a gridded street system- a system which provides access to all properties and promotes a natural mix of uses. Streets are a necessary element of urban areas because they can promote the pedestrian activity critical for businesses and residents. Although the Regional Center is served by MAX and WES, the area lacks the convenient pedestrian connections that would be provided by a street system. It is difficult to travel on foot from the Beaverton Transit Center to the rest of the Regional Center south of Canyon Road.

The Regional Center also lacks the kinds of amenities that draw businesses and residents and help create an identity for an urban area. Commonly, urban areas contain parks and other public open spaces. They also have public facilities (such as a library, recreation center and/or a community center). While Beaverton has a well-regarded library in the southern part of the Regional Center, and an adjacent parking lot that provides a home to the Beaverton Farmers Market, additional pedestrian and bicycle amenities could also enhance the area.

Finally, the development objectives in the Regional Center necessitate structured parking, so providing on-site parking is a serious obstacle to achieving these objectives. To overcome this obstacle, the last Regional Center Development Strategy called for the development of public parking structures to promote more intensive site development.

In this overall context, the City of Beaverton is considering an urban renewal program to provide a funding source that could be combined with other funding mechanisms, to make the public investments necessary to create a true urban space. The City retained the team of Tashman Johnson LLC, Urban Land Economics, WH Pacific, Inc., Elaine Howard Consulting, LLC and SERA Architects to study the feasibility of an urban renewal program. This is a draft report on the methodology and findings of the feasibility study. The Feasibility Study includes answers to the five questions posed by the City in its Request for Proposals, which are listed and discussed below.

A. Background

Over the years, Beaverton has devoted much time and resources to renewing and improving the central area of the City (see Figure 1: Beaverton Feasibility Study Area Map). The area is very diverse, and includes:

- A traditional commercial and residential area - south of Farmington Road - developed on a gridded system of streets and blocks and includes the City Library and Farmer's Market site;
- Traditional main street along Broadway;
- Numerous large auto-oriented commercial areas including Fred Meyer, Beaverton Town Center and various shopping centers along Canyon Road and Cedar Hills Crossing;
- The Round, a public/private redevelopment project focusing on the MAX Central Beaverton station and incorporating traditional urban development concepts;
- The Beaverton Central Plant, a district central Heating, Ventilating and Air Conditioning (HVAC) facility; and
- The Westgate Redevelopment site, former site of the Westgate theatre and possible location for a catalyst development.

The area also includes large blocks of property used for auto sales and repair, and some of these properties are in transition to more urban uses. **One of the challenges to development within the Regional Center is that it is such a large and diverse area. As will be discussed in this report, a key step is to identify the "heart" of downtown. We find from our analysis that the area north of Canyon Road and bounded by SW 117th, Center Street and Cedar Hills Boulevard is the heart of the greater Regional Center.**

Along with the extension of MAX Light Rail Transit and the Metro 2040 Growth Concept, Beaverton engaged in station area planning and designated part of the central area as a Regional Center, with a set of land use designations to require and promote development of mixed uses (office, retail, residential and public) with urban character. The City continued to look ahead to implementing the regional center concepts, and as recently as 2007 prepared a Regional Center Development Strategy.

The City has been engaged in the Beaverton Community Visioning process, which has identified five community goals:

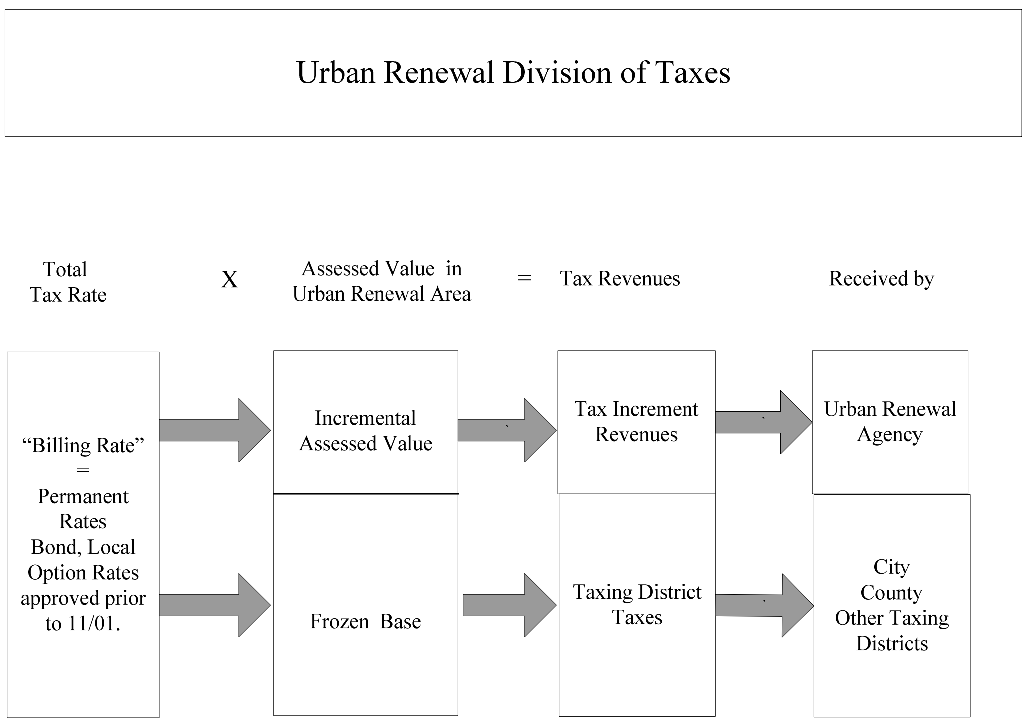
- Build Community
- Provide High Quality Public Services
- Improve Mobility

- Create a Vibrant Downtown
- Enhance Livability

B. Purpose of Study

In this overall planning context, the City decided to explore whether and how an urban renewal program might be appropriate for central Beaverton. Urban renewal programs can take advantage of tax increment financing, which allows, within limits, the property tax revenues on growth in assessed value to be used to fund urban renewal projects.

Tax increment financing is set up when a city (or county) adopts an "**Urban Renewal Plan**". The Urban Renewal Plan defines an "**Urban Renewal Area**", a geographic area governed by the Plan. At the time the Plan is adopted, the assessor calculates the total assessed value in the Area, which becomes the "**Frozen Base.**" In future years, when the total assessed value in the Area increases (due to increases in assessed value of existing property within the 3% limit or new development), most of the property taxes on this growth - the "**Incremental Assessed Value**" - is allocated by the assessor to the Urban Renewal Agency.[1] This is shown in the diagram below:



While tax increment financing is in use, the taxing districts that levy taxes within the Area "**Overlapping Taxing Districts**" do not receive property tax revenues on the Incremental Assessed Value, but continue to receive property tax revenues on the Frozen Base. The property tax revenues on the incremental assessed value, which are allocated to the Urban Renewal Agency instead of the taxes they would normally collect, are revenues foregone (not received) by the Overlapping Taxing Districts. The amount of these "**Foregone Revenues**" to the taxing districts

[1] Property taxes for General Obligation Bonds and Local Option Levies approved by voters prior to October 5, 2001 are not allocated to the Urban Renewal Agency but go only to the taxing district.

must be analyzed when an urban renewal plan is being considered. This Feasibility Study includes an initial projection of the revenues foregone in Section IV. Overlapping Taxing Districts may have concerns about the revenues foregone. Due to these concerns, these issues are commonly addressed early in the urban renewal planning process.

Annual tax increment revenues have to be used for payment of debt, money borrowed to pay for urban renewal projects. The debt can be long term (bonds) or short term (bonds or other debt agreements). An urban renewal plan has to have a limit on the amount of funds that can be borrowed and repaid with tax increment revenues. This limit is called the **"Maximum Indebtedness."**

It is common for a municipality to do a feasibility study of an urban renewal plan as a basis for deciding whether to prepare an urban renewal plan. The essential parts of a feasibility study are an analysis of existing conditions within a study area to determine if conditions of "blight" are present (see Feasibility Study Section II), a projection of what tax increment revenues might result from proper development of the area (see Feasibility Study Section IV), and a projection of the likely costs of the investments necessary to promote that development (see Feasibility Study Section VI). A feasibility study also studies the area's size and assessed value, because statutes limit urban renewal areas in municipalities of over 50,000 people to no more than 15% of its land area and no more than 15% of its assessed value.

Urban renewal planning has become progressively more complex over the years as Oregon's property tax system has changed via initiatives and legislation. Another important part of a feasibility study is to identify how an urban renewal plan will comply with new law.

C. Response to Questions Posed by City in RFP

In April 2009, the City issued a Request for Proposals for an Urban Renewal Feasibility Study (**"Study"**). The Study is to address the following questions:

1. Can an urban renewal district be configured in the identified area to comply with the statutory limits on land area and assessed value?

   Yes, a meaningful urban renewal district can be configured in the identified area to comply with the statutory limits of 15% on land area and assessed value. In the last section of the Feasibility Study we have specific findings on how this area might be configured.

2. Do physical conditions exist which require the use of urban renewal through the support and promotion of new development and redevelopment?

   Yes, physical conditions exist, such as underdevelopment and lack of a connected street system, which can benefit from an urban renewal program to support and promote new development and redevelopment. Questions 1 and 2 are addressed in detail in Feasibility Study Section II, Existing Conditions Analysis.

3. Will adequate tax increment revenues be generated from properties within the potential urban renewal area to fund projects and activities to realize Beaverton's goal of revitalizing the area?

   Yes, along with other sources of public funding. Tax increment revenue financing is often seen as one tool in a toolkit of programs to help revitalize areas. Tax increment revenues will be generated from future development that - along with other funds - can fund projects and programs to realize Beaverton's goal of revitalizing the area. This question is addressed in detail in Section III, Market Assessment and Section IV, Projected Tax Increment Revenues.

4. What can the City do to encourage private reinvestment in the City's Regional Center area? Examples of potential projects include: water, stormwater, sewer, transportation, and energy related infrastructure improvements, parking structures, pedestrian amenities, system development charges, and financing for affordable housing.

   We suggest that priority urban renewal projects and programs initially focus on Subarea 1, which we see as the heart of the Regional Center. Projects include:

   - Creating a catalyst project to help jumpstart redevelopment and development of the subarea;
   - Providing an efficient transportation network, including pedestrian amenities, by extending and connecting roads;
   - Developing a public amenity, such as a park, as a focal point to downtown Beaverton, and enhance natural features such as Beaverton Creek as part of the public amenity;
   - Creating an environment for the development of additional residential units in the downtown and retail services to support the residents;
   - Providing parking which will help facilitate the development of additional office buildings; and
   - Providing employment opportunities.

   This question is addressed in detail in Section V, Possible Urban Renewal Projects and Section VI, Relationship between Projected Costs and Projected Borrowing Capacity.

5. Are there additional areas in the City that are appropriate to consider for urban renewal? The RFP notes that the urban renewal study area should be assumed to be malleable by the consultants and public input. It should be thought of as a starting point, a vicinity map to challenge our ideas and to think outside the lines.

   Yes. Areas within the City that are appropriate for urban renewal in the future are suggested in Section VII, Conclusions and Possible Next Steps.

Questions as important as the previous five are:

6. What would the financial impacts of an urban renewal plan using tax increment financing be on the taxing districts that levy property taxes within the Area?

   As with any urban renewal area, there are impacts on taxing districts. The scale of these impacts appears to be relatively small in proportion to the overall budget of the taxing districts. This is addressed in Section IV, Projected Tax Increment Revenues and Borrowing Capacity.

7. How might an urban renewal plan in central Beaverton relate to the new provisions of HB 3056 regarding limits on Maximum Indebtedness and sharing of tax increment revenues?

   Any urban renewal plan adopted after January 1, 2010 will have to comply with the provisions of HB 3056, which has limits on the Maximum Indebtedness of urban renewal plans and which calls for sharing of tax increment revenues after a certain level of tax increment revenues is reached. This is addressed in Section IV, Projected Tax Increment Revenues and Borrowing Capacity.

D. Scope of Feasibility Study

The Feasibility Study has the following Sections:

1. Introduction, including background and purpose of feasibility study.
2. Existing conditions, including conditions of blight.
3. Market assessment and development projections for “opportunity districts” in the study area. Opportunity districts are groups of parcels that have special potential for development.
4. Projected tax increment revenues and borrowing capacity and compliance with HB 3056.
5. Possible urban renewal projects.
6. Relationship between projected costs and projected borrowing capacity.
7. Preliminary conclusions and possible next steps.
8. Three technical appendices contain the detailed analysis of this study: Attachment I - Existing Conditions, Attachment II - Real Estate Market Assessment and Attachment III - Tax Increment Revenue Projections.

II. EXISTING CONDITIONS ANALYSIS – "CONDITIONS OF BLIGHT"

Urban renewal plans are authorized for the purpose of overcoming obstacles that prevent an area from developing to its potential under the comprehensive plan. The statutes (ORS 457) define areas that have these obstacles as "**Blighted Areas**," a term that reflects the roots of urban renewal in inner city slum clearance and redevelopment. The statutes provide a detailed definition of blight. This finding is necessary to create an urban renewal agency. The agency, if it is decided to move forward with urban renewal for Beaverton, would then forward a recommendation to the City Council for ultimate review of an urban renewal plan. The City Council, if it approves an urban renewal plan to send to the citizens of Beaverton for a vote, must find that the urban renewal area is indeed blighted. This finding is part of the ordinance which would be used to refer the plan to voters for approval.

The most common conditions of blight in urban renewal areas across Oregon are:

- Lack of adequate access and utilities;
- Underdevelopment of property;
- Deterioration of existing buildings and improvements;
- Scattered ownership and platting patterns; and
- Lack of public facilities including parks, parking and public spaces.

This section describes the study area and notes existing conditions of blight. The detailed analysis which documents conditions of blight in each of the eight subareas will be provided in Attachment I.

A. Overall Conditions of Blight

Overall conditions of blight found in the Study Area are:

1. Land is underdeveloped when compared to the planned capacity in the Comprehensive Plan and Zoning Designations. For example, if the zoning code allows for a development of 45 dwelling units per acre, and the present development has only 10 units per acre, the property is underdeveloped. This is measured by the improvement to land value ratio, which is calculated by dividing the real market value of the improvements by the real market value of the land. If the ratio between land and improvement is low and the zoning allows for increased uses, the ratio shows that the property is underdeveloped, an indicator of blight.

2. Subarea 1 and parts of Subarea 2, where most of the new development is projected to occur, lack a full street system making vehicular, pedestrian and bike circulation difficult.

3. There is a lack of parks and open space.

4. Ownership of potential redevelopment sites is fragmented.

5. Parcelization (size and distribution of parcels) doesn't match intended land use.

For this study, the Study Area was divided into eight subareas. These are shown in Figure 1 and are generally described as follows:

Subarea 1: Regional Center – Transit Oriented Zone

As the zoning designation implies, this 166 acre subarea contains the major transit facilities in central Beaverton. It also includes the vacant Westgate Theatre site, the largest tract of vacant commercial land in the study area. However, its primary characteristic is its lack of intensity of commercial development, which ranges from shopping centers, auto dealerships, and strip commercial development along Canyon Road. Aside from The Round, which was explicitly designed around the Beaverton Central MAX station, most of the existing land uses predate the transit facilities and do not relate to them, providing both opportunities and challenges for future redevelopment. The other major land use within Subarea 1 is multi-family residential. Most of this development is apartment buildings located on Center Street.

Subarea 2: Regional Center – Old Town

Subarea 2, with 126 acres, is a blend of older retail and service commercial buildings and residential development, primarily single family. This subarea is home to the Beaverton Public Library and the beloved Beaverton Farmers' Market, which have been identified in surveys as the heart of the city. It also includes commercial development along Canyon, Broadway and Farmington, the historic retailing core of Beaverton.

Subarea 3: Regional Center – East

At slightly more than 121 acres, Subarea 3 is heavily developed with large retailers (Beaverton Fred Meyer and Beaverton Town Square), City Hall and Griffith Park office buildings. With two freeway intersections at Canyon Road and Beaverton-Hillsdale Highway, the other dominant feature of this subarea is its traffic. Residential uses are confined to the northern edge where there are numerous apartment buildings.

Subarea 3 is the gateway to central Beaverton.

Subarea 4: Industrial Area East of Hwy 217

With the exception of a small residential subdivision just south of Beaverton-Hillsdale Highway, industrial parks and retailers define the 269 acre Subarea 4. It has two direct connections to Highway 217 and the regional freeway system and is an important employment center. Here, too, there is very little vacant land, with only 7.78 unimproved acres in the industrial zone.

Subarea 5: Residential South of 5th Street

Single-family homes and apartment buildings are the predominate use in Subarea 5, which has very few non-residential land uses. Home of Elsie Stuhr Community Center and also known as the Vose neighborhood, it also includes large retirement communities. Subarea 5 has approximately 272 acres.

Subarea 6: Residential West of Beaverton High School and South of Farmington

As in Subarea 5, housing is the main land use in Subarea 6, with 63% of the total 134 acres in parcels (159 acres total). Beaverton High School is in this subarea, as is the Westbrook neighborhood, a high-quality planned community development from the 1980's.

Subarea 7: Mixed Commercial/Industrial Area Primarily West of Hocken Road

Subarea 7, at 297 acres, is the largest subarea and includes a wide range of land uses. Light industry and commercial development, including many auto dealerships, string out along Tualatin Valley Hwy, while Millikan Way houses light industrial parks and apartment complexes. Numerous office buildings front the east side of Murray Road across from the Big Kmart shopping center. Subarea 7 also has some of the largest apartment complexes in the study area, located between TV Highway and Farmington Road.

Subarea 8: Noncontiguous Areas along Cedar Hills Blvd.

The final, and smallest, subarea is formed by commercial property north, south and east of Cedar Hills Crossing Shopping Center. More than 75% of the total 83 acre subarea is already developed in commercial uses, including auto dealerships to the south, strip commercial and Walker Center.

B. Summary of Subarea Conditions of Blight

Table 1 summarizes the conditions of blight found in each subarea. It also includes our findings on whether or not a subarea contains opportunity districts, which are a practical impediment to redevelopment. An "X" shows this condition is evident in the area. In addition, most of the areas lack the density that is planned in the Comprehensive Plan and Zoning Code, and this is a condition of blight shown in the second column in the following table. A full existing conditions analysis will be provided when this report is presented to the city council at the February 2010 meeting.

Table 1: Summary of Conditions of Blight.

Subarea #	Existing Land Use Fails to Meet Comp. Plan objectives (Low I:L) *	Inadequate Infrastructure	Intensity of Development Low Improvement to Land Value Ratios	Platting Not Suited to Comp Plan Designation	Number of Opportunity Districts	Ownership of Opportunity Districts Scattered
1	Lacks Density	X	X	X	13	X
2	Lacks Density	X	X	X	16	X
3	Lacks Density	X	X	X	2	X
4	Lacks Density	X	X	X	3	X
5		X			0	NA
6	Lacks Density in Corridor Designation	X	X (in commercial areas)		0	NA
7	Lacks Density	X	X	X	4	X
8	Lacks Density	X	X	X	2	X

The table shows that of the eight subareas, in our judgment, two (#5 and #6) lack opportunity districts (defined in next section) and therefore would have low redevelopment potential. Based on the analysis of blight conditions, however, all eight subareas could be seen, to varying extents, as blighted.

1. **Building to Land Value Ratio**

An analysis of property values can be used to evaluate the economic condition of real estate investments in a given area. The relationship of a property's improvement value (the value of buildings and other improvements to the property) to its land value is generally an accurate indicator of the condition of real estate investments. This relationship is referred to as the "**Improvement to Land Ratio**" or "**I:L.**" The values used are real market values. In urban renewal areas, the I:L may be used to measure the intensity of development or the extent to which an area has achieved its short- and long-term development objectives.

This assessment is made considering the development capacity of the zones within an area. This indicator is not an indicator of a "healthy business", which might use an income basis to determine worth. It is an indicator of whether property is developed to the level allowed in the zoning code. If properties are more fully developed, they will, in turn, contribute more to property taxes. These higher taxes are beneficial to both government and to citizens within the taxing jurisdictions.

A healthy condition of real estate investment in the area would range from 3.5:1 to 9:1, excluding single family residential properties. The following guideline I:L values were established by the consulting team:

- Office 8-9:1
- Retail 3.5:1
- High Density Residential 8:1
- Industrial 3.5:1
- Townhouse 3.5:1

Some examples of I:L values within the area are shown in Table 2.

Table 2: Examples of I:L.

Sub-area	Healthy I:L	Use	Address	I:L	Healthy I:L
1	no	Canyon Pl. Shopping Ctr	3805 SW 117	3.42	8-9:1
	yes	Round Office bldg	12725 SW Millikan	31.30	
	no	Older Office building	12655 SW Center	3.44	
	no	Apartment	12350 SW Center	4.15	
2	no	old apartment	11871 SW 3rd	1.21	3.5:1
	no	small commercial building	12275 SW 2nd	2.40	
3	no	Office Building	4800 SW Griffith	2.89	3.5:1
	no	Retail (Shops at GP)	4655 SW Griffith	2.12	
4	no	Office/warehouse	5051 SW Western	2.33	3.5:1
5	NA	Single family	5420 SW Hall	0.98	NA
	NA	Single family	11720 SW 12th	0.53	
6	NA	Westbrook PUD SFH	4995 SW Normandy	1.15	
	yes	Apartment complex	5005 SW Murray	4.86	3.5:1
7	no	Auto Dealership	4275 SW 139th	1.00	
	yes	Flex industrial	13475 SW Millikan	3.53	3.5:1
8	yes	Retail (Standard TV/Appliance)	3600 SW Hall	3.74	3.5:1

III. MARKET ASSESSMENT FOR FEASIBILITY STUDY AREA

The projections of tax increment revenues are based on a market assessment of the study area. The assessment looks at the national, regional and local markets for major elements of development in the study area - office, retail, multifamily residential (both apartments and condominiums) and light industrial/flex space. It takes into account current and projected real estate market conditions and is based on analysis of central Beaverton's strengths and weaknesses.

The assessment uses an "opportunity district" approach to projecting development, i.e. specific groups of parcels are identified and projected to redevelop in accordance with current comprehensive plan and zoning designations. For each opportunity district, we project future "development programs" which list the type and amounts of uses. (Figure 2. Opportunity Districts shows the location of these districts.)

This is a key part of the Feasibility Study because these districts represent, in our judgment, the most likely locations for urban scale redevelopment. Clearly not all future development will occur ("be captured by") these districts and not all of these districts will redevelop. However, the approach allows for estimating future development on the basis of actual sites which, by virtue of location and existing land use, present what we think are the best opportunities.

A. Redevelopment Context

Prior to projecting specific long-range redevelopment programs, it is important to outline the context and assumptions for the redevelopment forecasts. This context includes the real estate market conditions summarized below, but also **a strategic and pragmatic approach to redevelopment in central Beaverton. The level of development that is supported by the market will only develop to its full potential with strategic public investments. In this Section we assume that such investments are being made.**

The basic principles of this market assessment are:

- Strengthen Market Position:

  Historically, Beaverton has been the primary retail center in Washington County. Central Beaverton, with its location, multi-modal transportation network and potential density, can strengthen its market position with public and private improvements to its core area.

- Capitalize on Light Rail:

  Light rail service will encourage housing and employment development in central Beaverton. However, as light rail service is extended throughout the Portland Metro area, other communities will share its advantages and compete with Beaverton for the transit-oriented development. Beaverton can fully realize the benefits of light rail service with a more pedestrian-oriented environment surrounding the two stations.

- Solidify the Round:

  As the first truly urban development in central Beaverton, The Round has had a difficult early history. Planning, public improvements and urban renewal efforts that help support The Round by increasing its connectivity to surrounding street networks, increasing parking and encouraging development on adjacent parcels will provide much-needed support. These efforts are necessary to encourage future investment in central Beaverton. A catalyst project in the area will be vital to encouraging future development. Public/private partnerships are an effective tool to encourage development of a catalyst project.

- Focus Redevelopment Efforts:

  Although the proposed urban renewal district is nearly 1,500 acres and includes numerous potential redevelopment areas, strategic planning should avoid scattershot redevelopment and public investment, particularly in the early years of urban renewal. Centralized investment that benefits multiple adjacent parcels will have the greatest impact. Subarea 1 is a logical initial focus. A catalyst project in the area will be vital to encouraging future development. Public/private partnerships are an effective tool to encourage development of a catalyst project

- Create Public Amenity North of Canyon Road:

  Public amenities, such as parks and streetscapes, are nearly mandatory elements of pedestrian friendly urban neighborhoods. While the study area south of Beaverton Hillsdale/Farmington includes the City Library and numerous parks, central Beaverton north of Canyon Road has few such amenities. Housing and office development will both derive significant value from public investments in parks and other amenities.

- Increase Street Connectivity and Pedestrian-Oriented Environment North of Canyon Road:

  Streets lack "legibility" north of Canyon Road, due to the numerous dead ends and angled streets. This impedes both vehicular and pedestrian circulation and limits access for future development. Filling in the gaps to create a stronger grid pattern will facilitate and encourage new development.

- Develop Structured Parking:

  Prior studies of Central Beaverton's development potential have stressed the importance of structured parking. With minimum floor-area-ratios of 0.6 in key areas of the potential urban renewal district, structured parking will be necessary. Much more detailed study of this issue will be necessary, including location, cost sharing, etc.

These principles are also the underlying basis of the recommended urban renewal projects that are discussed in Section V.

For each opportunity district, the projected redevelopment occurs on part or all of the district, and a specific "development program" contains the mix and amount of land uses. Development of the opportunity districts includes, where appropriate, stand alone residential projects, stand alone retail and office projects and mixed-use projects containing both commercial and residential uses.

In general, development is projected to be relatively modest in the first five years after adoption of an urban renewal plan, increasing to aggressive development in the second five years and gradually lessening over the next ten years. (If an election for a proposed urban renewal plan is held in November, 2010 the tax increment financing of an urban renewal plan could begin in FY 2011/2012.)

B. Anticipated Market Conditions for Office, Retail, Light Industrial and Housing

1. New Office Development

Three additional office buildings and one new parking structure are planned for The Round, totaling approximately 300,000 square feet of new space. However, overall market conditions in central Beaverton and the western metropolitan submarkets suggest limited demand for new office development in the next 5-7 years. In the larger Washington County economy, although there are some bright spots like the solar industry, industrial employment is continuing to be moved overseas, weakening the County's manufacturing and economic base.

As the current relative strength of the Central Business District ("**CBD**") market indicates, businesses requiring office space are attracted to the amenities of urban areas: transit, many choices in restaurants, access to services and financial institutions, etc. With greater concern about the personal and environmental costs of commuting by car, office location decisions will take into account proximity to transit, particularly light rail.

Central Beaverton will certainly benefit from having two light rail stations; however, light rail may be necessary, but it is not sufficient to guarantee successful office development. Marketing difficulties at The Round reflect ownership turmoil as well as parking restrictions, but also a limited urban environment, with few pedestrian amenities and an auto-oriented landscape. For significant new office development to succeed in central Beaverton, it will have to be part of a larger effort to enhance downtown Beaverton with attractive public spaces, pedestrian linkages and a denser pattern of retail and service development.

There are also financial feasibility issues that dovetail with issues of product competitiveness. Urban renewal resources may be available to offset some of the costs of site acquisition and structured parking. However, the financial reality of significant new office development is that it will have to be priced at a steep premium to existing office space in a market that will be soft for the mid-term future. Commanding this premium will require that central Beaverton is at least as convenient and at least as attractive as other suburban office locations.

2. New Retail Development: Summary of Market Conditions and Outlook

As the source of about 70% of the national economic activity, retail spending is an extremely important barometer of economic health. In the current recession, retail sales are down and savings rates are up, reflecting job losses, wealth reduction and anxiety about the economic future. It is hard to predict how far the American consumer's current thriftiness will extend past the recession. However, it is equally hard to imagine that the credit-fueled spending will return quickly to pre-recession levels for non-essential retail goods and services. One of the upsides, however, in retail vacancies is that opportunities will exist for new products and retailers in quality locations.

Historically, Beaverton served as the market town for Washington County and it remains a major retail center. Cedar Hills Crossing dominates local shopping centers, with 750,000 square feet of space, or about half of the shopping center inventory. In conjunction with Walker Center across Cedar Hills Boulevard and other freestanding retailers, Cedar Hills Boulevard between Canyon and Walker Roads has nearly a million square feet of retail space and clearly is the center of shopping activity in Beaverton. However, unlike a million square foot regional center such as Washington Square, the auto-oriented environment hampers pedestrian circulation among retailers.

The other major node of shopping activity in central Beaverton is the Fred Meyer-Beaverton Town Square-Canyon Place triangle, with nearly 500,000 square feet in these three centers. With Fred Meyer acting as the functional Main Street, with a full range of retail goods and services, and Canyon Place providing affordable apparel, this shopping district provides a wide variety of merchandise.

A discussion of Beaverton's retailing would be incomplete without covering auto dealerships. As long-standing businesses of central Beaverton, auto dealers preceded many of the shopping centers described above. In fact, the regional draw of central Beaverton is probably due, in part, to the regional marketplace initially created by the auto dealers.

The way in which cars have been marketed in the United States, i.e., on large lots with nearly every option of color and model available, is a function of inexpensive land. As land becomes more valuable in areas such as central Beaverton, moving some of the inventory and service functions off-site preserves the market, but allows an intensification of land use. As newer, fuel-efficient cars with new technology are introduced into the market in the next few years, it is likely that merchandising will also be innovative, using fewer land resources and displayed in a more urban context. With increasing density in central Beaverton, new merchandising will allow both the preservation of this important market and free up valuable real estate for more intensive development.

As a more pedestrian-oriented environment is created, future retail development within the study area will include ground floor retail space in the core area. In addition, more traditional auto-oriented retail will continue to take advantage of the high traffic corridors. Increasing use of web-accessed consumer information and e-commerce will challenge retailers to integrate technology and brick-and-mortar retailing in the most efficient manner, creating opportunity for new retail models and possibly increasing the functional obsolescence of current shopping formats. Whatever new models may be created for retail activity, central Beaverton has the advantage of already being a very strong retail location, with opportunities for new retail development within and adjacent to existing shopping centers and districts, as well as in new mixed-use, transit-oriented projects.

3. New Light Industrial Development: Summary of Market Conditions and Outlook

With sharp reductions in consumer spending, importation of consumer products has fallen, reducing demand for warehousing space. With fewer goods being transported from ports to inland markets, demand for distribution space is reduced. In addition, light industrial parks were home to many construction-related businesses, another victim of the current recession.

Beaverton's central location and access to the regional highway network ensure that it will continue to attract light industrial and flex space development. New development will first occur on the few remaining vacant parcels and then move to replacement of existing older industrial warehousing facilities to more marketable development. However, market equilibrium will be necessary before new investment occurs. Maintaining this economic base will in turn support demand for housing in Beaverton, which in turn will strengthen local spending and retail development.

4. New Multi-Family Housing Development: Summary of Market Conditions and Outlook

The condominium market has experienced much of the same fallout from the housing crisis as the single family housing market, with steep price declines, frozen credit markets and anxious buyers and sellers. Regionally, overbuilding in the luxury sector, particularly in Portland, has forced developers to market condo units as apartments, creating an oversupply in the luxury apartment market.

In general, the apartment market has suffered primarily from general economic woes, as job losses weakened demand, causing rents to fall and vacancy rates to rise for the first time in several years. However, the apartment market is probably the strongest commercial real estate segment and will likely see the first new development as the recession ends and employment rises.

In Beaverton, most of the larger apartment complexes include a full range of on-site recreation facilities, such as fitness centers and pools, as well as attractive landscaping. In the suburban model, they relate inward and are designed to provide on-site features and conveniences to their residents. Within the study area, most of the multi-family development is located on Center Street, Electric Street and Murray Boulevard. Although they were all constructed prior to light rail service, many of these apartment complexes are located within walking distance of a light rail station.

New multi-family development in Central Beaverton will consist of two basic types: medium-high density units, often in mixed-use buildings, and attached ownership units, as have already been developed in the Old Town district. In a departure from the current suburban model, amenity value will need to come from the neighborhood, with restaurants, services, transit and public amenities within walking distance. Land and construction costs for urban apartments and condominiums are higher than their suburban competition, so value must be perceived to come from convenience and access to services and entertainment. Access to light rail is a critical component of these services, but it is not sufficient and must be part of a larger pedestrian-friendly commercial environment with public amenities.

C. Opportunity District Projections

1. Criteria for Designation

As the first step, each subarea within the proposed urban renewal study area was examined using multiple criteria to identify districts where redevelopment was likely and/or should be encouraged. The criteria included:

- Improvement to Land (I:L) ratios of less than 1.0 (see explanation on pages 10-11);
- Vacant parcels;
- Proximity to MAX stations;
- Proximity to high value private and public improvements;
- Ownership patterns allowing site assembly;
- Low value uses relative to zoning (low density compared to allowed density);
- Location on highways or arterials;
- Extended periods of vacancy;
- Minimum 10,000 square foot parcel.

2. Projected Redevelopment of Opportunity Districts by Subarea

Development projections were made for each subarea by anticipating the development program for each district, i.e. what uses would be developed and how intensively the district would redevelop. Opportunity districts are identified in Figure 2. Opportunity Districts at the end of this report.

a. Subarea 1: *Regional Center Transit Oriented*

As the location for the major transit station in Beaverton, several large vacant parcels, The Round and a declining commercial strip along Canyon Road, several districts for redevelopment have been identified in Subarea 1. In fact, this subarea has the highest redevelopment potential, with approximately 50% of the total subarea and 42% of the parcels designated within opportunity districts. Future redevelopment will include a range of moderately high density multi-family housing, office buildings developed to a range of floor area ratios (FAR), and mixed-use development (MXD) buildings with office over retail and housing over retail. Retail development is expected to be on the ground floor of multistory buildings.

The highest FARs will be located in The Round, conforming to existing buildings. To a great extent, future market demand for Class A office space in Beaverton will determine ultimate building FARs.

b. Subarea 2: *Regional Center Old Town*

Future redevelopment in the Old Town district will consist primarily of two types of projects: 1) infill multi-family projects scattered throughout the district, and 2) commercial office and retail development along Canyon and Farmington Roads. Infill residential development is a continuation of recent trends, with building on vacant lots, as well as on large lots currently with single-family homes. There is also potential for small mixed-use buildings of housing or office over retail in the Old Town subarea.

Commercial redevelopment in this subarea will strengthen the historic Broadway shopping district, eventually forming a connection with retailing at Beaverton Town Square and Fred Meyer. In total, opportunity districts are estimated to cover a little over 20 acres, or approximately 23% of Subarea 2.

c. Subarea 3: *Regional Center-East*

The greatest opportunity for redevelopment in Subarea 3 lies in the 114th Avenue area north of Canyon Road, an area that has been the subject of planning studies for a number of years. Office, retail and housing are all likely uses, connecting with existing housing along Center Street to the north and commercial development on Canyon. Redevelopment potential also exists in the area of Beaverton Town Square.

d. Subarea 4: *Industrial Area east of Highway 217*

Redevelopment potential was identified in parcels along Western Avenue, where older commercial buildings and vacant light industrial buildings provide potential for higher value retail and flex industrial development.

e. Subarea 7: *Mixed Commercial/Industrial West of Hocken Avenue*

Opportunity districts were identified primarily along Tualatin Valley Highway, where there are numerous large, underutilized parcels. There is also redevelopment potential for moderately high density housing in proximity of light rail. The total area identified for potential redevelopment is approximately 67 acres, with a current improvement-to-land ratio of 0.59, indicating low value improvements relative to land value. Most of the new development will be higher intensity retail development, with structured parking not required.

f. Subarea 8: *Commercial Parcel Along Cedar Hills Boulevard*

Future redevelopment potential exists primarily on the west side of Cedar Hills Boulevard, north and south of Cedar Hills Crossing. Structured parking will be required to meet minimum floor-area-ratio (FAR) requirements. New development will be primarily retail, connecting with the existing strong retail corridor.

To summarize, opportunity districts in the study area include approximately 253 acres, or about 21% of the total study area (in parcels). The number of opportunity parcels is a smaller percentage of the total than their area, reflecting the fact that the larger parcels have greater redevelopment potential. In all subareas, opportunity districts have a smaller improvement value to land value ratio than the subareas.

3. Summary of Development Projections by Subarea.

There are three factors that dictate the amount and timing of redevelopment: 1) general economic and market conditions, 2) site availability and 3) public investment and improvements. For some opportunity districts, few, if any, public improvements are required for redevelopment to occur. In other areas, particularly in earlier stages of urban renewal, public assistance in acquisition, private/public partnerships to help spur development, public support of structured parking and other infrastructure improvements will be critical.

For the purposes of forecasting when redevelopment will occur, the following assumptions are made:

- Public improvements will be made in key subareas to enhance Beaverton's competitive position, including: structured parking, street improvements to improve connectivity in areas north of Canyon Road, sidewalks and other pedestrian enhancements, bike lanes and other public amenities.
- Site assembly is a key requirement in some opportunity districts and the City will assist in this effort.
- Formation of the urban renewal district will occur within a year of the feasibility analysis.

Market Considerations

While the proposed urban renewal agency can facilitate and expedite many aspects of the redevelopment process, general economic conditions and their reflection in the local markets will guide future redevelopment. As described in the previous subsection, current global economic and credit market conditions have ended the housing price bubble, forced cutbacks in consumer credit and spending and resulted in employment losses that are reflected in high vacancy rates in the office and industrial markets. Stability appears to be returning to employment and housing market, signaling the end of the downward spiral that began in late 2008.

This economic backdrop influences redevelopment projections in the proposed urban renewal district, as outlined below:

- Vacant lots, rather than those with existing improvements, will generally be the first to develop, until rent structure increases to justify additional cost of improved sites.
- As reflected in Metro's population forecasts, housing within urban areas and with access to light rail will be in demand.
- Office market equilibrium will be necessary before major new office development occurs. Because the sites are ready for development, it is likely that the next new office development will occur at The Round, provided the parking and other issues are resolved.
- The auto industry is in a period of transition, potentially opening the way for some of the auto-related businesses in central Beaverton to relocate or consolidate. Future auto showrooms will likely be in the urban model, with indoor showrooms in multi-story commercial buildings, with inventory and service functions off-site.
- A pedestrian friendly environment with public amenities will be necessary to support the rent structure of urban housing.
- Auto-oriented, rather than pedestrian-oriented, retail development will still be an important feature of Beaverton's landscape, particularly along Tualatin Valley Highway.
- Infill attached single-family housing will continue to be in demand in the Old Town subarea as families are drawn to the convenience of the urban center.

Multi-Family Housing Projections

Based on the assessment of opportunity districts and average densities of 30 dwelling units per acre for infill attached development and 45 dwelling units per acre for moderately-high density multi-family development, a total of 1,446 units are projected within the proposed urban renewal study period.

Table 3: Projected Multi-Family Development (Units).

PROJECTED MULTIFAMILY DEVELOPMENT (UNITS) Proposed Beaverton URD					
	Period in Which Redevelop Projected to Occur (Post formation of URD)				
Subarea	Years 0-5	Years 6-10	Years 11-15	Years 16-20	Total
1	109	435	173	88	806
2	68	68	70	0	206
3	0	0	60	145	205
4	0	0	0	0	0
7	0	229	0	0	229
8	0	0	0	0	0
TOTAL	**177**	**732**	**303**	**233**	**1446**

Reflecting current economic conditions, new housing development is modest in the first five-year period, increasing substantially in the second five years. The greatest number of units is projected for Subarea 1, following the current pattern of apartments and condominium development in proximity to transit facilities.

Office/MXD Projections

Many opportunity districts are suitable for office development: The Round and its vicinity, and along Canyon Road. As a particularly hard-hit real estate sector, the Class A office market will undergo a period of recovery prior to any major new development. For this reason, office development is projected to begin in earnest in the years 5-10, with new development increasing in the second half of the projection period.

Table 4: Projected Office/MXD Development.

PROJECTED OFFICE/MXD DEVELOPMENT (SF)* Proposed Beaverton URD					
Period in Which Redevelop Projected to Occur (Post formation of URD)					
Subarea	Years 0-5	Years 6-10	Years 11-15	Years 16-20	Total
1	0	214,151	253,019	212,856	680,025
2	3,482	47,747	47,747	0	98,975
3	0	0	57,611	57,611	115,223
4	0	0	0	0	0
7	0	0	0	0	0
8	0	0	0	0	0
TOTAL	3,482	261,898	358,377	270,467	894,223

*SF: square feet

Total projected square footage of nearly 895,000 square feet is gross area and includes, for most developments, ground floor retail/service space in mixed-use buildings. Estimated office space is 75 percent of this total, or approximately 670,000 square feet, with the majority of the space projected for Subarea 1. In addition, with redevelopment replacing existing retail and office buildings in some areas, the net increase is less than the gross area.

Retail Development

As an important shopping destination for Washington and western Multnomah Counties, Beaverton will continue to experience new retail development, as projected in Table 5. All subareas are expected to participate, with Subareas 7 and 8 along Cedars Hills Boulevard and Canyon Road seeing the greatest concentration.

Table 5: Projected Retail Development.

PROJECTED RETAIL DEVELOPMENT (SF) Proposed Beaverton URD					
	Period in Which Redevelop Projected to Occur (Post formation of URD)				
Subarea	Years 0-5	Years 6-10	Years 11-15	Years 16-20	Total
1	0	4,687	81,304	20,443	106,434
2	20,641	56,535	0	0	77,175
3	0	0	30,726	63,978	94,704
4	0	85,427	0	0	85,427
7	51,051	35,932	88,121	88,121	263,225
8	33,482	180,866	0	0	214,348
TOTAL	105,174	363,447	200,151	172,542	841,314

It is important to note that the 840,000 square feet projection includes many redeveloped parcels with current retailing uses, so actual new square footage will be less, depending on which specific parcels are redeveloped and which remain under current uses.

Flex Industrial Development

Approximately 470,000 square feet of new flex industrial space is projected for Subareas 4 and 7. As with other redevelopment areas, many of the sites have existing industrial buildings that would be replaced by more commercially valuable facilities, so the projected development is not a net increase in new flex industrial space.

Table 6: Projected Flex Industrial Development.

PROJECTED FLEX INDUSTRIAL DEVELOPMENT (SF) Proposed Beaverton URD					
	Period in Which Redevelop Projected to Occur (Post formation of URD)				
Subarea	Years 0-5	Years 6-10	Years 11-15	Years 16-20	Total
1	0	0	0	0	0
2	0	0	0	0	0
3	0	0	0	0	0
4	91,167	91,167	91,167	91,167	364,670
7	0	0	52,189	52,189	104,378
8	0	0	0	0	0
TOTAL	91,167	91,167	143,356	143,356	469,047

IV. PROJECTED TAX INCREMENT REVENUES AND BORROWING CAPACITY

This section of the report summarizes the methodology and results of the projection of the tax increment revenues that will fund the urban renewal projects called for in an Urban Renewal Plan.

As noted in the Introduction, generally tax increment financing is the use of property tax revenues resulting from growth in assessed value in an urban renewal area to fund public investment in that area.

It is important to understand that when tax increment financing is being used, the taxing districts that levy taxes in the Urban Renewal Area do not receive additional permanent rate property tax revenues from growth in assessed value in the urban renewal area. The Urban Renewal Agency receives the permanent rate property tax revenues on the incremental assessed value until all debt is repaid and the tax increment financing terminates.

In Beaverton, there is the unusual situation in which the City requests a permanent rate levy that is lower than its maximum permanent rate. Beaverton's maximum permanent rate is $4.6180 per $1,000 assessed value, but this fiscal year the City is only levying $3.9552. The City submits its permanent rate revenue budget and the assessor calculates the rate necessary to raise those funds. Therefore, the use of tax increment financing in Beaverton may affect the Beaverton property tax payer, because the property tax rate needed by the City may be very slightly higher if the incremental assessed value in an urban renewal area is not included in the rate calculation. If the City decides to prepare and consider an urban renewal plan these very slight impacts will be projected specifically. For now, there is no reasonable way to make a specific projection. Once the City reaches its full permanent rate, there would no longer be an impact on property tax payers. However, the City would forego permanent rate revenues on the incremental assessed value just as would the other taxing districts.

The other taxing districts that levy taxes in the Feasibility Study Area are:

Table 7: Taxing Districts and Their Permanent Rate.

Taxing District	Permanent Rate
Washington County	2.2484
NW Regional ESD	0.1538
Portland Community College	0.2828
Beaverton School District #48	4.6930
Tualatin Hills Parks & Recreation	1.3073
Tualatin Valley Fire & Rescue	1.5252
City of Beaverton	3.9552
Port of Portland	0.0701
Metro	0.0966

TriMet levies no permanent rate taxes, but levies taxes for a GO Bond.

Note that two critical municipal services, fire and life safety and parks and recreation, are provided by special districts. The impact of the tax increment financing on these districts, in particular, will have to be analyzed and evaluated if urban renewal planning continues forward.

A. Tax Increment Financing

Tax increment revenues may not be spent directly on urban renewal projects, but must be used to repay debt. The monies borrowed are used directly to fund urban renewal projects, programs and administration.

The form of debt, however, allows for a great deal of flexibility. To leverage future revenues, long term bonds can be issued when the tax increment revenues are appropriately high. To use a more "pay as you go" approach, the debt can take the form of an obligation to repay the City of Beaverton for its expenditures on projects, programs and administration. Finally, a very short term bond can be used to convert cash on hand from tax increment revenues into debt proceeds that can be spent directly.

As is shown in the diagram on page 3 of this document, tax increment revenues are determined by multiplying the total property tax rate ("**Consolidated Rate**") times the incremental assessed value. As noted above, the growth in total assessed value in the Study Area over the current assessed value is called "**Incremental Assessed Value**" and the current assessed value is called the "**Frozen Base**." Any and all growth in assessed value over the Frozen Base is included, i.e. both increases in existing property assessed value within the 3% limit and the assessed value resulting from new development.

The "consolidated billing rate" is the property tax rate used to calculate the tax increment revenues. This rate includes all the permanent rates of the taxing districts that levy taxes in the

Study Area and rates for General Obligation ("**GO**") Bonds or Local Option Levies approved by taxing district voters prior to October 5, 2001.

B. Projected Incremental Assessed Value

Incremental assessed value was projected based on projections of 2.75% appreciation in the assessed value of existing property (subject to the 3% constitutional limit) and projections of assessed value from new development. The appreciation rate takes into account that certain properties (manufactured homes, personal property and utilities) do not necessarily increase by 3% annually, but are limited by their real market value.

Projections of new development are based on the opportunity district redevelopment projections in the market assessment described above, as adjusted for inflation and as converted to assessed value. Those projections are in the form of five year segments. For use in the tax increment revenue projections, we assumed that 20% of the five year development occurs in each year.

The development types are:

Table 8: Development Types.

MF-HD	Multi-family apartments at 45 units per acre
MF-MD	Condominium units at 30 units per acre
MXD Office	Office above retail, square feet
Retail	Stand alone retail, square feet
Flex	Flex or business park space, square feet

The unit values were based on the Real Estate Market Assessment, which provided current real market values. These values were inflated as shown in Table 9. After calendar year 2016, inflation continues at 3% annually.

Table 9: Unit Values of Development.

Calendar Year	2011	2012	2013	2014	2015	2016	2017
MF-MD	275,000	277,750	280,528	283,333	286,166	289,028	291,918
MF-HD	110,000	111,100	112,211	114,455	117,317	120,543	124,159
MXD Office	235	237	240	245	251	258	265
Retail	250	253	255	260	267	274	282
Flex	115	116	117	120	123	126	130
Inflation %, All Uses	0.00%	1.00%	1.00%	2.00%	2.50%	2.75%	3.00%

The unit values are applied to the projected development schedule for each subarea (from the five year segments in the Real Estate Market Assessment) to calculate real market values for each year's development. These are then converted to assessed value by applying a projected ratio, representing the average relationship between real market value and assessed value county-wide for each property class (i.e. residential single family, residential multi-family, commercial and industrial). Finally, the projected assessed values are reduced by 25% to reflect that land assessed values will not generally change with redevelopment and that existing improvements have assessed values that will reduce the "net" incremental assessed values. This 25% reduction is an average across all properties, some of which have little or no existing improvement values. The net total assessed value per year is added to the projections of incremental assessed value.

C. Consolidated Rate

The consolidated rate (the rate applied to the incremental assessed value to determine the tax increment revenues) includes all permanent rates and all rates for General Obligation (GO) Bonds that were approved by voters prior to October 6, 2001. Because the City of Beaverton has not levied taxes at its full permanent rate, the projections make some assumptions about how the City's billing rate will change over time.

Table 10 shows the Fiscal Year Ending ("FYE") 2010 property tax rates, excluding rates for post October 6, 2001 levies.

Table 10: FYE 2010 Property Tax Rates.

	Permanent Rate	Bond Rate, Before 10/6/01
Washington County	2.2484	0.1456
NW Regional ESD	0.1538	
Portland Community College	0.2828	0.1751
Beaverton School District	4.6930	2.1863
Tualatin Hills Parks & Recreation	1.3073	0.4270
Tualatin Valley Fire	1.5252	
City of Beaverton	3.9552	0.2434
Port of Portland	0.0701	
Metro	0.0966	0.1538
Tri-Met		0.0863
Total	14.3324	3.4175
Grand Total	**17.7499**	

For the projections, the City of Beaverton billing rate is as projected by the City , as shown in Table 11.

Table 11: City of Beaverton Permanent Rate.

FY Ending	2012	2013	2014	2015	2016	2017	2018	2019
Perm Rates Less Beaverton	10.3772	10.3772	10.3772	10.3772	10.3772	10.3772	10.3772	10.3772
Beaverton Rate	4.1652	4.2905	4.2935	4.3748	4.4232	4.4973	4.5322	4.5825
Bond Rates	2.0505	1.3670	0.6835	0.0000	0.0000	0.0000	0.0000	0.0000
Consolidated Billing Rate	16.5929	16.0347	15.3542	14.7520	14.8004	14.8745	14.9094	14.9597

FY Ending	2020	2021	2022	2023	2024	2025	2026
Perm Rates Less Beaverton	10.3772	10.3772	10.3772	10.3772	10.3772	10.3772	10.3772
Beaverton Rate	4.6096	4.6050	4.6083	4.6109	4.6145	4.6165	4.6180
Bond Rates	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Consolidated Billing Rate	14.9868	14.9822	14.9855	14.9881	14.9917	14.9937	14.9952

D. Tax Increment Revenue Projections

A summary of projections of tax increment revenues by subarea is shown in Table 12.

The "**Present Value**" of the projected tax increment revenues represents the value of the revenues in today's dollars. A dollar in the future is not worth a dollar today, and so this figure reduces, or "discounts," the value of a future dollar for each year in the future it is received. The "**Discount Rate**" used below is 5%, which would also represent the annual interest rate for long term bonds.

The Maximum Indebtedness figure uses "**Nominal Dollars,**" which are not discounted. The statutes that govern tax increment financing require that the maximum amount of debt that is to be repaid with tax increment revenues be expressed in these future dollars. For this analysis, we have assumed only short term debt is issued, which makes the Maximum Indebtedness as high as it can be in this projection.

Table 12: Projected Present Value and Maximum Indebtedness by Subarea.

Subarea	Present Value	Maximum Indebtedness
1	$34,000,000	$93,000,000
2	15,000,000	40,000,000
3	6,000,000	17,000,000
4	19,000,000	49,000,000
5	14,000,000	36,000,000
6	7,000,000	17,000,000
7	26,000,000	70,000,000
8	13,000,000	34,000,000
Total	**$134,000,000**	**$356,000,000**

E. Permanent Rate Property Taxes Foregone by Overlapping Taxing Districts

While tax increment financing is in use (up to until the Maximum Indebtedness is issued and repaid), the taxing districts that levy permanent rate property taxes in the urban renewal area forego their permanent rate taxes on the incremental assessed value. As noted in Section I, property taxes for GO Bonds and Local Option Levies approved after October 5, 2001 are unaffected by the tax increment financing. For GO Bonds, the rate calculated by the assessor includes the incremental assessed value. For Local Option Levies, the property taxes produced are not divided and all go to the levying district.

Overlapping taxing districts usually want to see the analysis of foregone revenues use the full incremental assessed value, i.e. they want to see the revenues foregone of the incremental assessed value as it is projected to be *with an urban renewal plan.* It is perhaps more valid to analyze these impacts based on what the growth in the urban renewal area would be *without an urban renewal plan.*

The analysis here is of the full incremental assessed value and presents a worst case scenario. It is certainly difficult to project what the growth in assessed value in the urban renewal area would be without urban renewal, and at this point we have not tried to do so.

Table 13 assumes tax increment financing in place from FYE 2012 through FYE 2041, a period of 30 years. All the figures are in today's dollars. For context we have included the FYE 2010 permanent rate levy of the overlapping taxing districts (for this analysis we use the full Beaverton permanent rate).

Table 13: Present Value Impact on Taxing Districts.

Present Value Impact	Total	Per Year	% Perm Rate Levy
Washington County	19,964,538	665,485	0.7%
NW Regional ESD	1,365,658	45,522	0.7%
Portland Community College	2,511,106	83,704	0.7%
Beaverton School District #48	41,671,223	1,389,041	1.4%
Tualatin Hills Parks and Recreation	11,608,095	386,937	1.6%
Tualatin Valley Fire & Rescue	13,542,926	451,431	0.9%
City of Beaverton	41,005,499	1,366,850	4.0%
Port of Portland	622,449	20,748	0.7%
Metro	857,754	28,592	0.7%

The permanent rate impact on Beaverton School District #48 and the NW Regional ESD is shown in the same manner as for the other taxing districts, but under current State school funding the impacts on these two districts is actually indirect. Tax increment financing in any urban renewal area in Oregon will reduce the total property taxes collected statewide, and will therefore reduce the total funding of K-12 education and Educational Service Districts on a state-wide basis. So these two districts are affected equally by tax increment financing anywhere in the state, and K-12 and ESD's state-wide would be affected by an urban renewal plan in Beaverton.

The revenues foregone by most of the overlapping taxing districts are less than 1% of their current permanent rate levy. Though Beaverton School District #48 shows an impact of 1.6%, again, this number doesn't really reflect how schools are funded. The Tualatin Hills Parks and Recreation District shows an impact of 1.6%, and the highest level of impact is on the City of Beaverton (4%). The impact is actually a bit higher than shown because we have done this analysis with Beaverton's full permanent rate, not the actual billing rate for FYE 2010.

F. Compliance with HB 3056

HB 3056 includes limits on the Maximum Indebtedness - the total amount of tax increment debt that can be issued - of an urban renewal plan that are a function of the size of the Frozen Base and it requires that an Urban Renewal Agency share tax increment revenues with overlapping taxing districts when the annual tax increment revenues of an urban renewal plan reach 10% of the Maximum Indebtedness. Any of the requirements of the law can be waived with the concurrence of the taxing districts who levy 75% of the permanent rate property taxes in the urban renewal area.

Maximum Indebtedness

The HB 3056 provisions on Maximum Indebtedness state that different limits apply based on the size of the Frozen Base. The larger the Frozen Base, the larger the Maximum Indebtedness.

The total Frozen Base of the Study Area is estimated to be $870,000,000. HB 3056 limits an urban renewal plan with this size Frozen Base to $100 million, plus 35% of the amount of the difference between the Frozen Base and $150 million. The limit under this formula for the Study Area is $352,000,000. Therefore, the projected Maximum Indebtedness of the Study Area is only reduced by approximately 1% by applying this limit. The HB 3056 limit will have to be re-estimated if the City of Beaverton prepares an urban renewal plan with different boundaries than the Study Area Boundaries.

Table 14: Explanation of Maximum Indebtedness Limitation.

Frozen Base	$870,000,000
Statutory Limit	-150,000,000
Difference	720,000,000
35% of Difference	252,000,000
Add	100,000,000
Total Maximum Indebtedness Allowed by Statute	$352,000,000

Revenue Sharing

The HB 3056 requirements for "revenue sharing" mean that an urban renewal plan that has produced a substantial amount of growth in assessed value in the urban renewal area has to limit its annual tax increment revenues so that the Overlapping Taxing Districts begin to receive more property tax revenues from the incremental assessed value (growth over the Frozen Base).

The revenue sharing provision takes effect in the first year after the year when the tax increment revenues exceed 10% of the Maximum Indebtedness. In our projections, the Maximum Indebtedness is as high as can be sustained by the projected revenues because only short term borrowings, with effectively no interest payment, are used as the basis for the Maximum Indebtedness. The projected revenues for the Study Area do not reach 10% of the Maximum Indebtedness during the 30 year projection period.

If long term indebtedness is used, and Maximum Indebtedness is held constant, the repayment of all debt will take longer than 30 years, and the revenue sharing provisions will apply. We have not projected this scenario at this time, but it would be part of the scope of work of preparing a proposed urban renewal plan.

V. POSSIBLE URBAN RENEWAL PROJECTS

The following analysis of possible urban renewal projects and programs has not yet been reviewed by City staff, and does not reflect any issues or concerns they may raise. The list is of initial priority projects for Subarea 1.

The priority public improvement projects identified by the consultant team were identified to both reflect the goals of the visioning effort and facilitate development which will produce the tax increment revenues, which in turn will drive the development process. These projects build community by:

- Providing an efficient transportation network, including pedestrian amenities by extending and connecting roads;
- Developing a public amenity (such as a park) as a focal point to downtown Beaverton;
- Creating an environment for the development of additional residential units in the downtown and retail services to support the residents;
- Providing parking, which will help facilitate the development of additional office and retail space;
- Providing employment opportunities.

All of these projects help to create a vibrant downtown. In addition to helping to create a vibrant downtown and build community, each of these projects meets the Visioning Goals by providing high quality public services (including a new public amenity) and improving mobility on a gridded local street system.

An urban renewal plan may also provide for *programs* that provide assistance directly to property owners and/or developers. An important program would be acquiring property for private redevelopment (from willing sellers) and reselling that property to a developer at a price that may be below the real market value of the property. This is called a land "**Write Down**," and it is done in return for the development of the property in a way that provides special benefits to the City and the public. Additional programs may include low interest rate loans for rehabilitation or new development and payment of systems development charges on behalf of a private development.

The projects described below are public improvement projects. However, in the practice of urban renewal, these improvements are usually undertaken only when there is a private development project that requires the public improvement. So, for instance, a parking structure would not normally be constructed in the hope that it would spur development, but rather it would normally be developed in return for specific legally binding commitments for private development.

It is also a common urban renewal practice to bring all the tools at its disposal, i.e. land write downs, low interest loans, payment of SDC's and provision of public improvements to a single "**Catalyst Project**," one that provides an example for future development. These abilities of urban renewal plans to focus on spurring private development is part of what makes urban renewal such a powerful and effective tool.

A. Initial Public Improvement Projects in Subarea 1

Many of the initial priority projects are targeted to Subarea 1. **The development of this subarea is critical, as this subarea can be seen as the heart of downtown Beaverton.** Once a critical mass of projects is completed within this subarea, development pressure will cause development to occur on parcels outside of the subarea. Given this, we strongly believe a focus on this smaller area will be more likely to achieve success.

The public improvement projects in order of priority are:

- **Provide for acquisition of parcels for future development of a catalyst project.**

A catalyst project may need to be a public/private partnership in order to facilitate redevelopment of other parcels within the subarea.

- **Connect Rose Biggi Avenue to Westgate Drive and improve Crescent Street.**

Developing a grid system within the sub-area will enhance the flow of traffic and provide for better pedestrian and bicycle connections in the subarea. Improved connections will help facilitate increased development within the subarea.

- **Develop a parking garage to support the Round and future development in Subarea 1.**

A parking garage will support the Round and help facilitate the future development of the adjacent parcels.

- **Align Westgate Drive and Dawson Way and improve Westgate Drive.**

This alignment will enhance the flow of traffic and provide better access for the adjacent parcels. Improved connections will help facilitate increased development within the subarea.

- **Improve Millikan Way to Lombard Street.**

This extension of Millikan Way will enhance the flow of traffic, connectivity and provide better access for the adjacent parcels. Improved connections will help facilitate increased development within the subarea.

- **Develop a parking garage in the area of Hall Boulevard.**

A parking garage will provide support for the future development of the adjacent parcels.

- **Develop a public amenity in Subarea 1.**

A public amenity in this subarea will provide a more conducive environment for residential development and also provide a much-needed amenity for office development in the Area.

- **Construct pedestrian and bicycle improvements in Subarea 1.**

The pedestrian improvements will provide the additional amenities which will encourage an active use of the residential, office and retail spaces within the subarea. Improved connections will help facilitate increased development within the subarea and provide for enhanced livability within the Area.

- **Construct Millikan Way to 114th Street.**

The further extension of Millikan Way will tie Subarea 1 to the undeveloped and underdeveloped properties to the east. Development to the east will occur later than development in Subarea 1, so this extension should come after the improvements programmed for Subarea 1. Improved connections will help facilitate increased development within the Area.

B. Projects in Other Subareas

The Capital Improvement Plan (CIP) lists many projects for all the subareas for streets, water, sanitary sewer and storm water management. The total *unfunded* cost in today's dollars for all of the CIP projects is $106,565,678. The CIP project list does not include urban renewal administrative costs, bond issuance costs or the capital costs of parking structures, property acquisition or a public amenity.

Parking structures cost about $30,000 per space, not including land acquisition. Structured public parking for retail and office uses only in Subarea 1, at a ratio of 3 spaces per 1,000 square feet of space would have a total cost of over $70 million. To promote development at the beginning of the urban renewal plan period, the public share of the cost of structured parking is likely to have to be well over 50%.

Property acquisition from willing sellers will be a vital component to the success of urban renewal. Property acquisition costs cannot be estimated without knowing what properties will need to be acquired. Some of the acquisition costs will be recouped when property is sold for redevelopment. However, as a guide, the total current real market value of the opportunity districts in Subarea 1 alone is over $85,000,000. The cost of acquisition would have to include administrative costs, relocation costs and possible prices of property that exceed their current real market value.

The cost of a public amenity cannot be estimated without a concept plan.

VI. RELATIONSHIP BETWEEN PROJECTED REVENUES AND PROJECTED COSTS

The capacity in today's dollars of the tax increment revenues discussed in the prior section is about $135,000,000, if all the subareas were included in an urban renewal area. The costs of the CIP projects for all subareas and for structured parking, property acquisition and a public amenity in Subarea 1 could easily reach $250,000,000.

What we think is more critical, however, is not how the total costs relate to the total revenues, but what revenues might be available in the early years of the urban renewal plan and what project funding might be necessary to produce those revenues. The nature of tax increment financing is challenging at the beginning of an urban renewal plan because some of the projects have to be done to allow development to occur, and so their costs come early in relationship to the revenues, which come sometime after development is completed. There can be a gap of 20 months between completion of a development project and the receipt of tax increment revenues from the increase in assessed values from that project.

For example, in Subarea 1, the cost of priority projects is about $25 million in today's dollars. Tax increment debt proceeds would reach about $24 million in year of receipt dollars over a 20 year period. So the timing of the funding is a challenge that has to be overcome.

In addition, it does not always work out that the investments can be sized to just accommodate an early development project. Given this, the investment needs can be earlier than, and greater than, the revenues from early development projects.

This analysis points to a conclusion that other public funds will likely have to be found to seed early development in the urban renewal area. These other public funds most commonly include SDC funds for system capacity and development exactions (requiring public improvements as part of the approval of a building permit).

Another way that public funds can be brought into the mix is for the Urban Renewal Agency to borrow funds in advance of revenues and have the City pay interest costs until the urban renewal plan generates sufficient funds for principal and interest payments. Since the City would be responsible for payment of the debt after some point if there were not adequate tax increment revenues, there would be a risk to general City revenues that would have to be acceptable.

At the feasibility study stage, a judgment that the tax increment revenues will be sufficient to fund a substantial part of the project costs can be sufficient for the City to decide to prepare an urban renewal plan. However, during the plan preparation, a more detailed financial analysis would be required.

VII. PRELIMINARY CONCLUSIONS AND POSSIBLE NEXT STEPS

The preliminary conclusions of the Urban Renewal Feasibility Study deal with the questions in the Request for Proposals and the additional questions we raised. **These conclusions should be considered preliminary. As noted at the beginning of this report, the public process and the involvement of the taxing districts that would be affected by an urban renewal plan has not yet occurred. This process should be undertaken at the earliest possible time to provide input into the planning process and help formulate final conclusions.**

A. Preliminary Conclusions

Based on the analysis summarized in this Feasibility Study, we make the following conclusions:

1. There are clear conditions of blight in the Study Area that support the adoption of an urban renewal plan.

2. Subarea 1 should be the initial focus of the Plan.

3. Key projects in Subarea 1 include developing a connected street system and structured parking and creating a public amenity to focus and support development.

4. The City of Beaverton may want to adjust the boundaries of the urban renewal area. The most effective boundary of an urban renewal area would include Subareas 1, 2, 3, 7 and 8. There are no opportunity districts in Subareas 4 or 5. Subarea 4 is removed from the central area, which should be the focus of urban renewal. Subareas 5 and 6 are residential in nature, with few opportunities for increases in intensity of development, and few projects identified for the subareas.

5. The City may want to consider the addition of the Cedar Hills Crossings site. Land on both sides of the site are already included. Cedar Hills Crossings provides an important element to a strong central city. There is strong potential for future redevelopment to more intensive uses.

6. Urban renewal plans for the Washington Square area may be appropriate for urban renewal, but the focus should be on central Beaverton at this time.

7. The total of tax increment debt proceeds could fund a good share, but not the total costs, of necessary projects. Other public funding sources will be necessary, especially at the beginning, to support initial development of Subarea 1.

8. The projects in an urban renewal plan should include site acquisition in selected opportunity districts. Note that eminent domain may not be used for private redevelopment.

B. Next Steps

We have previously noted that this draft Feasibility Study has not been discussed with the public and the Beaverton Visioning Action Committee, and public agencies, especially the service districts such as Tualatin Hills Parks District and the Tualatin Valley Fire and Rescue District, have yet to review and discuss the analysis and findings. The initial first step has to be to start these necessary processes.

Beyond that, our recommended next steps would be:

1. Decide to prepare a proposed Urban Renewal Plan for consideration of the future Urban Renewal Agency and City Council.
2. Establish a full Urban Renewal Plan Advisory Committee and a Technical Advisory Committee for urban renewal planning issues.
3. Use the analysis of this Feasibility Study and the input from the public to frame a "development concept" for the Regional Center, focused on Subarea 1, that appeals to the Beaverton public.
4. Create materials and a process to have a dialogue with the public regarding the necessary role of an urban renewal plan to make the concept a reality.
5. Create materials and have a process to discuss the trade-offs of near term property tax revenue and achieving a long term enhancement of property tax revenues and the livability of Beaverton.
6. If the City Council decides to pursue urban renewal, an Urban Renewal Agency must be formed. According to statute, it must have a minimum of three members. In addition, the Beaverton City Charter specifies one of the members must be from a group outside of City Council. The condition of blight must be established when an agency is formed.
7. If the Agency determines it wants to proceed with urban renewal, the Agency would refer an urban renewal plan to the City Council for their review.
8. If the City Council determines it wants to proceed with urban renewal, it would refer the issue to the voters for their determination. The condition of blight must be established in the ordinance referring the issue to the voters.

Figure 1: Beaverton Feasibility Study Area Map.

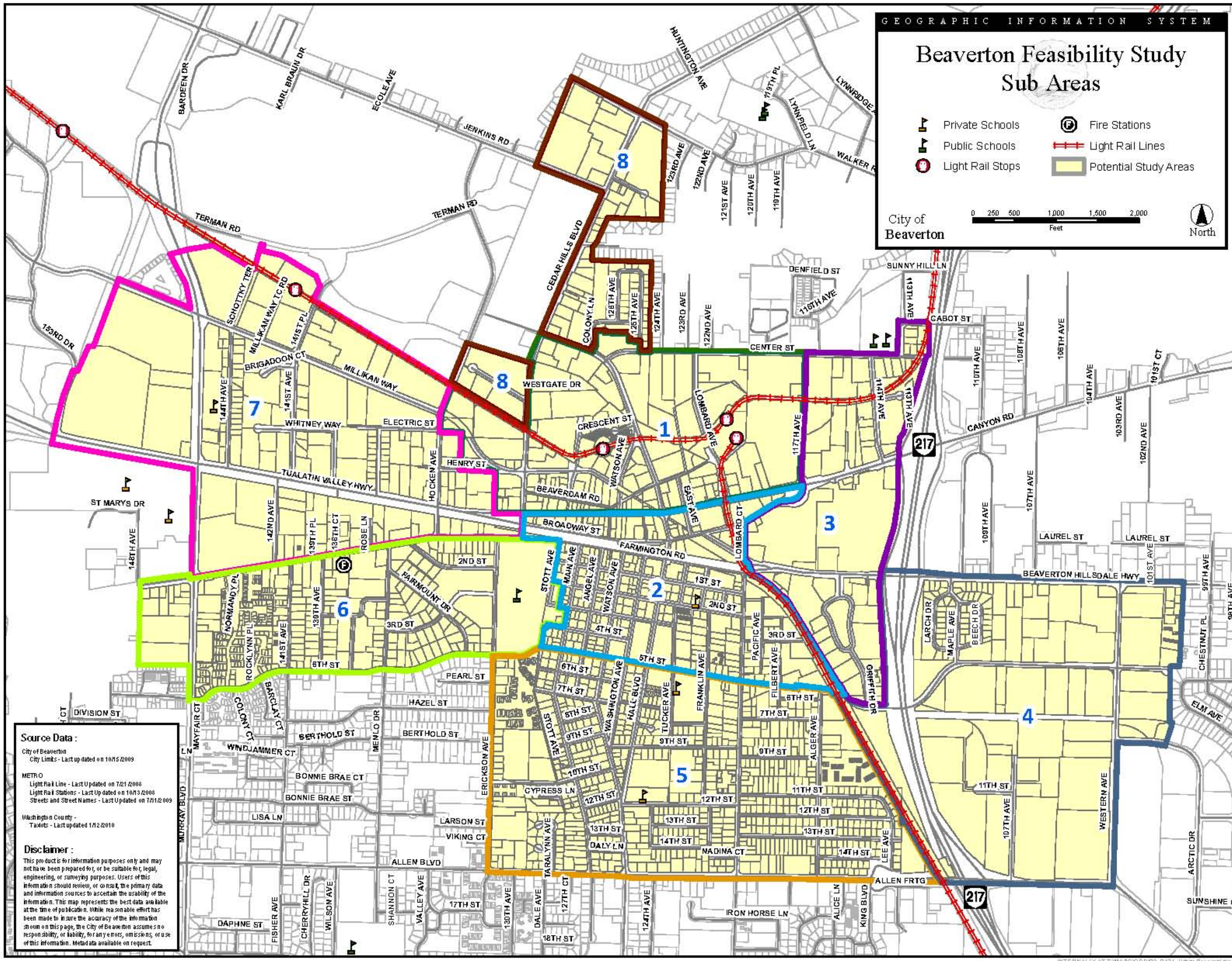
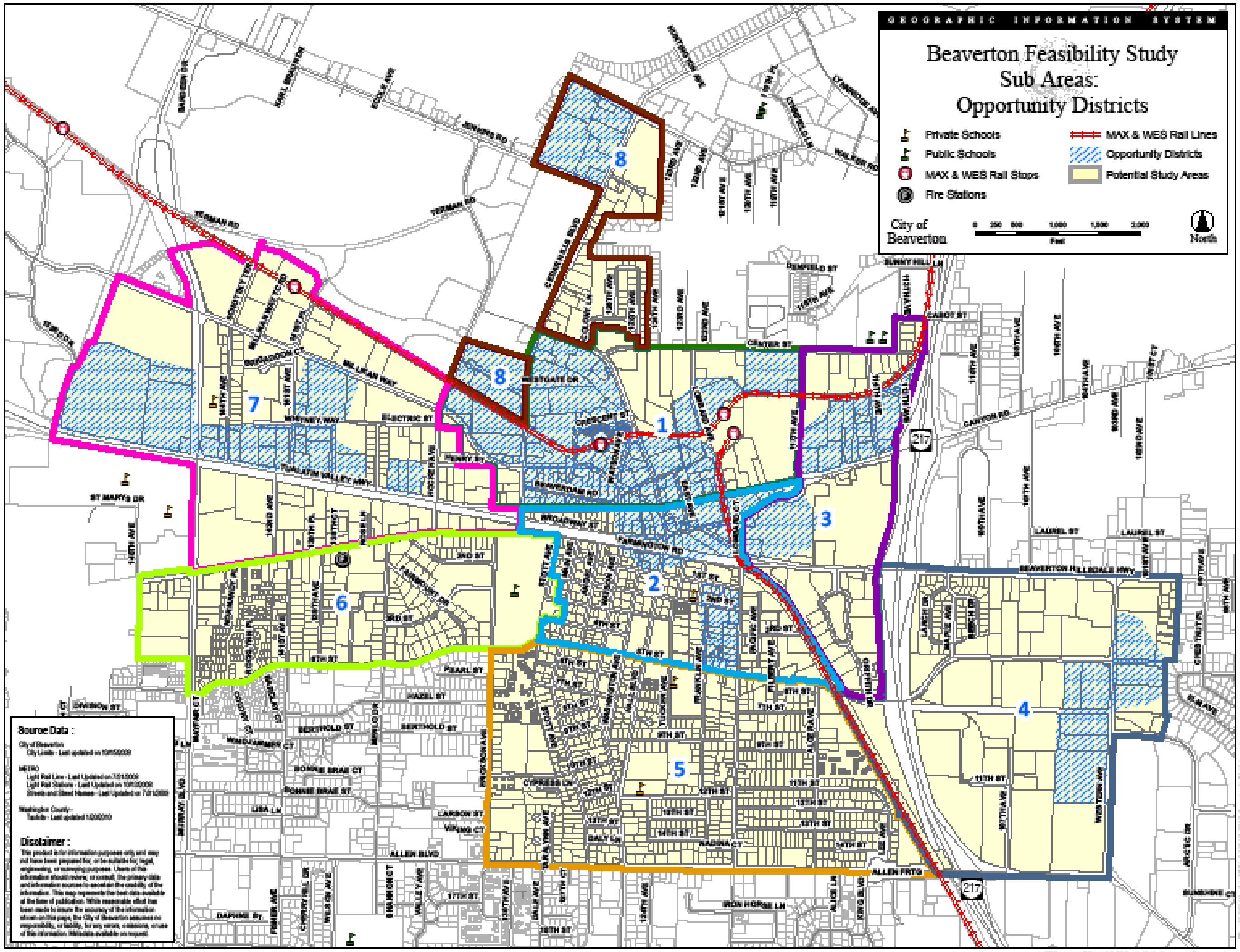


Figure 2: Opportunity Districts.



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