

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: May 26, 2010
TO: Board of Commissioners
FROM: Bruce A. Warner, Executive Director
SUBJECT: Report Number No. 10-53
Requesting the City Council to increase the principal amount of bonds for Central Eastside Urban Renewal Area

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6799

ACTION SUMMARY

This action will request the City Council (the "Council") to increase the maximum amount of issuance for short-term revenue bonds (the "Bonds") under the State Uniform Revenue Bond Act for Central Eastside Urban Renewal Area ("CES URA"). The increase is associated with an existing line of credit. The total amount of the increase in line of credit interim financing will not exceed \$2 million. The line of credit will eventually be taken-out with long-term bonds requiring Portland Development Commission (the "Commission") action.

Urban Renewal Area	Current Amount (\$)	Increase (\$)	Total (\$)
Central Eastside	33,000,000	2,000,000	35,000,000

PUBLIC BENEFIT

This action will benefit the public by supporting the following Commission goals for the Area:

- Develop healthy neighborhoods
- Provide access to quality housing
- Help business to create and sustain quality jobs
- Support a vibrant central city (urban core)
- Contribute to a strong regional economy

PUBLIC PARTICIPATION AND FEEDBACK

Not applicable.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

This action will allow staff to continue the work on projects anticipated in the adopted 9th Amendment to the CES URA Plan.

FINANCIAL IMPACT

The annual debt service payments on the CES line of credit will depend on amounts drawn by the Commission each year. Typically, interest is paid on outstanding line credit balances until the lines are refinanced with long-term urban renewal and redevelopment bonds. Debt service costs are expected to be paid from tax increment revenues of CES URA. Current tax increment revenue projections show that there is sufficient tax increment proceeds to service the line of credit increase proposed.

RISK ASSESSMENT

If approved by the Commission, the Council will take action on an Ordinance to authorize the additional bonds in May 2010, at which time a 30-day referral period will begin. If during the referral period, written petitions signed by at least six percent of the City's electors are filed with the City auditor, any bonds for the urban renewal area could not be issued unless approved by the voters.

WORK LOAD IMPACT

Additional work related to providing support to the City's Office of Management and Finance during the bond issuance and the subsequent accounting for bond proceeds is anticipated in current Central Services staff resource planning.

ALTERNATIVE ACTIONS

The Commission may choose not to request the Council to authorize an increase in the line of credit. The City has an existing line of credit with an outstanding balance for CES URA. The Commission's FY 2009-10 Revised 3 Budget is expected to provide appropriation authority to add the Hooper Detox Center/Mental Health Crisis Center project (the "Project"). PDC originally planned to provide resources for the Project to Multnomah County in FY 2012-13. It is estimated that the costs of funding the Project earlier than 2012-13 when combined with other budgeted CES URA projects would exceed the current maximum principal amount specified for the existing line of credit.

Although it is expected the City will repay the lines with the proceeds of long-term urban renewal and redevelopment bonds secured by tax increment revenues, short-term financing is considered the most cost effective means to refinance existing lines of credit and to provide for future budgeted costs of the urban renewal areas until such time that long-term bonds are issued.

CONCURRENCE

Staff of the Commission has worked closely with the Office of Management and Finance to determine financing needs. The decision to increase the line of credit is supported by the City and the Urban Renewal Area Manager.

BACKGROUND

As requested by the Commission in Resolution No. 6511 in 2007, the City Council adopted ordinance No. 181286, authorizing lines of credit for nine urban renewal areas. The ordinance established the maximum amounts that could be borrowed for each of the urban renewal areas. The Commission subsequently approved Resolution No. 6758 in January 2010 requesting the City Council authorize additional borrowing on the lines of credit for Central Eastside, Interstate Corridor and Gateway Regional Center urban renewal areas. The City Council adopted Ordinance No. 183480 (and collectively with Ordinance No. 181286, the “Ordinances”) authorized the requested additional borrowing for those three urban renewal areas. The amount authorized by the increases was intended to provide funding for expenditures through the expiration dates of the lines of credit in December 2010.

Since adoption of Resolution No. 6758, the Commission’s FY 2009-10 Budget is expected to be amended to add the Hooper Detox Center/Mental Health Crisis Center project (the “Project”). PDC originally planned to provide resources for the Project to Multnomah County in FY 2012-13. However, by committing resources this fiscal year, an opportunity exists where the two mental health facilities can be bundled as part of a New Market Tax Credit financing package, producing overall savings of nearly \$1 million. PDC will provide \$1.925 million of tax increment revenues to the Project, which will be funded with proceeds from the Central Eastside Urban Renewal Area line of credit. While this action authorizes the increase in the line of credit to allow sufficient timing to secure City Council authorization and to execute related bank documents, the draw on the line of credit and expenditure of funds will not take place until and unless the FY 2009-10 Revised 3 Budget is approved by the Commission. The FY 2009-10 Revised 3 Budget is expected to be scheduled for Commission approval on June 23, 2010.

Depending on tax increment revenue growth, staff estimates that, if the project is moved up to this fiscal year, there would likely be two years where the City is borrowing slightly ahead of the financial capacity permitted by the City’s debt planning standards without displacing other projects. When planning for short-term borrowings in urban renewal areas, the City’s standard is to permit issuance up to an amount that, when converted to long-term debt using reasonable borrowing assumptions, is fully self-supporting based on tax increment revenues collected in the year the debt is issued. However, the borrowing will fit within the City’s debt policy, which permits incurring short-term indebtedness in amounts which are projected to be fully self-supporting by the projected available tax increment revenues in the fifth year of the forecast period, or FY 2014-15.

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Section 15-106 of the Charter of the City authorizes the City Council (the “Council”), upon request of the Portland Development Commission (the “Commission”), to issue bonds which are payable from the tax increment revenues of the City’s urban renewal areas, and authorizes the Commission, with the concurrence of the Council, to pledge those tax increment revenues to pay those bonds.

It may enhance the security for, reduce the interest rate on and facilitate the payment of the bonds if the Council and the Commission pledge the tax increment revenues of each area to pay the bonds issued to finance projects in that area.

Lines of credit allow the Commission to maximize the usage of maximum indebtedness by drawing funds needed to carry out the City’s urban renewal plans as the funds are needed. This allows flexibility for the timing of project needs and limits financing costs to amounts actually borrowed (outstanding draws on the line). Additionally, this allows the City to aggregate financing needs for larger bond issues, thereby holding down the cost of issuance related to long-term bond sales.