URBAN RENEWAL 101

A GUIDE

2007

This guide provides a basic introduction to urban renewal and revenue allocation financing in Idaho, a discussion of recent legislation and drafts of proposed legislation for 2008.

Association of Idaho Cities

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Understanding Urban Renewal & Revenue Allocation Financing in Idaho

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Why are Urban Renewal & Revenue Allocation Financing Important Tools for Economic Development?

The State of Idaho provides limited options for cities and counties to use in financing site preparation, infrastructure and other needed incentives necessary to attract and retain businesses. Revenue allocation financing allows communities to make a site "ready" for development, including extending water, sewer, streets and other improvements that reduce the cost to businesses of relocating or expanding.

Urban renewal and revenue allocation financing is particularly important because of the competitive nature of economic development, where Idaho communities face competition from communities in other states or countries where incentives such as tax abatements, local revenue sharing, and "war chests" for recruitment often exist. Many Idaho cities (some with more than one project area), have chosen these tools to revitalize their city. The positive impacts of urban renewal can be seen across the state.

What are the Public Benefits of Urban Renewal & Revenue Allocation Financing?

The public benefits resulting from urban renewal and revenue allocation financing include:

- Job creation from the initial project as well as potential for "spin-off" developments.
- Underutilized and deteriorated or deteriorating property is returned to productive use.
- Infrastructure upgrades enhance capacity for surrounding area and community at large.
- Improvements to local transportation systems benefit the community at large.
- Increasing local tax base may mean property owners enjoy lower levy rates in the future.
- Successful projects generate increased sales and income taxes for the state.

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What Laws Allow for Urban Renewal & Revenue Allocation Financing in Idaho?

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- ✓ The Idaho Urban Renewal Law—Title 50, Chapter 20, Idaho Code, and
- ✓ The Idaho Local Economic Development Act—Title 50, Chapter 29, Idaho Code.

The Urban Renewal Law was originally passed by the 1965 Idaho Legislature. The law allows a city or county governing board to designate areas for urban renewal projects aimed at eliminating or preventing deteriorated or deteriorating areas and developing and revitalizing underutilized areas. An urban renewal agency, governed by a board of commissioners appointed by the Mayor and confirmed by the City Council, is responsible for overseeing implementation of urban renewal plans that outline the necessary projects for specific areas.

The Local Economic Development Act was passed by the 1988 Idaho Legislature, and authorizes the use of revenue allocation financing for the following purposes:

- ✓ To assist in the financing of urban renewal plans,
- ✓ To encourage private development in urban renewal areas and competitively disadvantaged border community areas,
- ✓ To prevent or arrest the decay of urban areas due to the inability of existing financing methods to promote needed public improvements,
- ✓ To facilitate the long-term growth of the local tax base, and
- ✓ To encourage private investment within urban areas and competitively disadvantaged border community areas.

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The statute requires that a revenue allocation financing plan must be approved by the City Council and must include:

- The kind, number, and location of all proposed public works or improvements within the revenue allocation area;
- An economic feasibility study;
- A detailed list of estimated project costs;
- A fiscal impact statement showing the impact of the revenue allocation area, both until and after the bonds are repaid, upon all taxing districts levying taxes upon property on the revenue allocation area;
- A description of the methods of financing all estimated project costs and the time when related costs or monetary obligations are to be incurred.
- A termination date for the plan and the revenue allocation area, and a description of the disposition or retention of any assets of the agency upon the termination date.

To establish revenue allocation financing, the City Council must adopt an ordinance following public notice and public hearing, including specific notice to affected taxing districts.

How are Urban Renewal Districts Formed?

1. Interest expressed by City Council, any existing urban renewal agency, property owners, developers, or combination.
2. Agency or consultant evaluates if area is eligible for urban renewal and submits report to City Council.
3. City Council determines if area is eligible and if it wants an urban renewal agency to prepare urban renewal plan.
4. Urban renewal agency prepares the urban renewal plan.
5. City Council receives urban renewal plan and refers it to Planning Commission.
6. Planning Commission determines if urban renewal plan is consistent with Comprehensive Plan.
7. City Council holds public hearing; determines whether to adopt plan and form district.

What Powers Do Urban Renewal Agencies Have?

Consistent with the urban renewal plan, to:

- ✓ Construct/reconstruct streets, utilities, parks, playgrounds, off-street parking and public facilities, buildings and other improvements.
- ✓ Acquire and dispose of property or buildings.
- ✓ Improve, renovate, clear and prepare for redevelopment properties or buildings.
- ✓ Acquire property to eliminate unsanitary or unsafe conditions, lessen density, eliminate obsolete or other uses detrimental to public welfare.
- ✓ Invest and borrow money, issue bonds, and accept loans and grants.

How Does Revenue Allocation Financing Work?

When a revenue allocation area is formed, the county assessor establishes the current value for each property in the area, which is referred to as the "base" value. Over time, if both public and private investments are made and development occurs in the area, property values tend to rise. The increase in value over the base is called the "increment" value. The taxes generated by the increment value are distributed to the urban renewal agency, as opposed to the taxing districts. Taxes generated from the base value continue to be distributed to the taxing districts. An urban renewal agency does not determine property valuation or levy rates. The revenue allocated to the urban renewal agency is used to pay for improvements and revitalization activities to attract private investment and eliminate deteriorated or deteriorating conditions, with the goal of strengthening the local economy.

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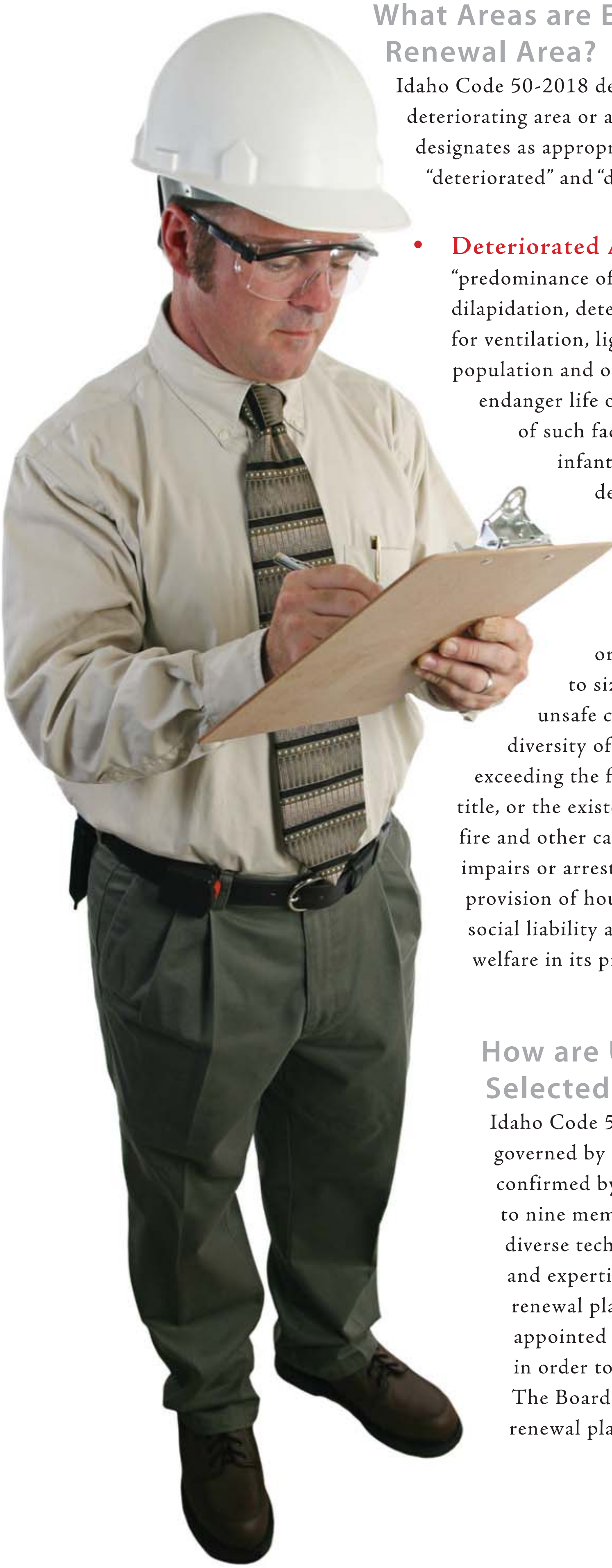

What Areas are Eligible for Inclusion in an Urban Renewal Area?

Idaho Code 50-2018 defines "urban renewal area" as "a deteriorated area or a deteriorating area or a combination thereof which the local governing body designates as appropriate for an urban renewal project." The law defines "deteriorated" and "deteriorating" areas as follows:

- **Deteriorated Area:** Includes areas in which there are a "predominance of buildings or improvements...which by reason of dilapidation, deterioration, age or obsolescence, inadequate provision for ventilation, light, air, sanitation, or open spaces, high density of population and overcrowding, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors is conducive to ill health, transmission of disease, infant mortality, juvenile delinquency, or crime, and is detrimental to the public health, safety, morals or welfare."

- **Deteriorating Area:** Includes areas in which there are a "substantial number of deteriorated or deteriorating structures, predominance of defective or inadequate street layout, faulty lot layout in relation to size, adequacy, accessibility or usefulness, insanitary or unsafe conditions, deterioration of site or other improvements, diversity of ownership, tax or special assessment delinquency exceeding the fair value of the land, defective or unusual conditions of title, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, substantially impairs or arrests the sound growth of a municipality, retards the provision of housing accommodations or constitutes an economic or social liability and is a menace to the public health, safety, morals or welfare in its present condition and use..."

How are Urban Renewal Commissioners Selected?

Idaho Code 50-2006 provides that the urban renewal agency is governed by a board of commissioners appointed by the Mayor and confirmed by the City Council. The Board may consist of three to nine members. This enables the selection of individuals with diverse technical backgrounds to provide a high level of knowledge and expertise in overseeing the implementation of the urban renewal plan. In some cities the Mayor and City Council have appointed school district trustees and/or county commissioners in order to provide representation to these taxing jurisdictions. The Board is responsible for overseeing implementation of urban renewal plans that outline necessary projects for specific areas.

What Mechanisms are in Place to Ensure Transparency & Accountability of Urban Renewal Agencies?

Idaho law provides numerous requirements designed to ensure transparency and accountability for urban renewal agencies, including:

- ✓ Making records available to citizens upon request pursuant to the Idaho Public Records Law.
- ✓ Meetings are open to citizens, preceded by public notice and an agenda, and meeting minutes kept pursuant to the Idaho Open Meeting Law.
- ✓ Urban renewal commissioners are required to disclose conflicts of interest pursuant to the provisions of the Idaho Ethics in Government Act and the Idaho Urban Renewal Law.
- ✓ Urban renewal agencies are required to comply with the provisions of the Local Government Competitive Bidding Law.
- ✓ Urban renewal agencies have the same financial audit requirements as municipalities.
- ✓ The budget for the upcoming fiscal year must be approved by the urban renewal board of commissioners following public notice and public hearing.
- ✓ Urban renewal agencies are required to prepare and file with the city an annual report of activities for the preceding calendar year by March 31 and publish notice of the report's availability upon request by citizens. The report must include a complete financial statement setting forth assets, liabilities, income and operating expenses.

Could Homeowners Pay Higher Property Taxes Due to Revenue Allocation Financing?

Revenue allocation financing allows tax revenues generated by new development within an area to be used for urban renewal projects. Depending on assessed values within a taxing entity's jurisdiction, the levy rate may increase slightly. The amount of property taxes paid is a function of the assessed value and the levy rates. In the long run, the effort is likely to reduce property taxes by increasing the tax base.

Do Businesses Pay Less in Property Taxes Due to Revenue Allocation Financing?

No. Businesses are subject to the same tax levy rate as all other property owners in the city/county. The only difference is the taxes generated by new development are used within the targeted area for urban renewal projects pursuant to the goals of the redevelopment plans.

Are There Limits on the Size of Revenue Allocation Areas?

Yes. Idaho Code 50-2903(15) provides that the revenue allocation area base values "shall not exceed at any time ten percent (10%) of the current assessed valuation of all taxable property within the municipality." Most communities in the state using revenue allocation financing are considerably below this limit.

Can Revenue Allocation Financing Negatively Impact Taxing Districts?

The work outlined in an urban renewal or revenue allocation plan is not a short-term effort: from inspiration, to land assembly, building design, entitlement, construction, sale, and finally, to ribbon-cutting, each project takes years to complete. Idaho law permits revenue allocation districts to be in operation for up to 24 years (with certain limited exceptions), which means that tax revenue resulting from the increment value accumulated during that time is dedicated to urban renewal projects rather than being distributed to the taxing districts, which can create pressure for funding tax-supported services within these areas. However, the development resulting from urban renewal is a long-term benefit to communities, as the local tax base increases and taxpayers anticipate lower future levy rates.

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Recent Amendments to Urban Renewal & Revenue Allocation Financing Laws

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2000 Legislature:

- Clarified the time frame for the filing of the necessary information with the State Tax Commission and county offices to create or amend an urban renewal/ revenue allocation area.
- Limited the term of revenue allocation authority, with minor exceptions, to 24 years.
- Required an urban renewal agency and a city to enter into an intergovernmental agreement with the county for any revenue allocation area extending outside city limits.
- Extended to counties the authority to use revenue allocation financing.

2002 Legislature:

- Clarified that urban renewal agencies are subject to statutes on open meetings, public records, ethics, auditing and financial reporting, and competitive bidding.
- Adopted procedures to be used by an agency in closing out an urban renewal project and the termination of revenue allocation financing authority. An urban renewal plan must now include a specific termination date and an "exit strategy" for termination. A specific termination year budget must be submitted to the other taxing entities describing the termination and closeout of the project.
- Clarified the term of revenue allocation financing for urban renewal plans and competitively disadvantaged border community ordinances which were adopted prior to July 2000 allowing the authority to extend through the term of the plan.
- Allowed urban renewal agencies to retain assets beyond the term of revenue allocation authority if an agency has other resources.

2003 Legislature:

- Prohibited extension of urban renewal areas outside of city limits into another city or county without a resolution of necessity from the other city or county.

2005 Legislature:

- Provided that urban renewal agencies follow the uniform local government competitive bidding law in Chapter 28, Title 67, Idaho Code.

2006 Legislature:

- Adopted Idaho Code 7-701A, Limitation on Eminent Domain, which restricts an agency's use of eminent domain for economic development purposes.
- Made amendments to Idaho Code 50-2018(8) and (9). Revised definition of deteriorated or deteriorating area to limit inclusion of property used for agriculture pursuits.

2006 Legislative Special Session:

- Repealed school district 3 mill operation and maintenance levy and limited the 4 mill rebate by urban renewal agencies to school districts as school district operation and maintenance is now funded through state resources.

2007 Legislature:

- Ended the practice of including the value of new construction within a revenue allocation area in the new construction roll for the purpose of levying by taxing districts.

If you have any questions, feel free to contact the AIC office.

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