

**NORTH MACADAM URBAN RENEWAL AREA
District Funding Strategy Update
ADDENDUM**

October 12, 2006

The following are questions that were raised at the September 14, 2006 URAC meeting regarding the funding strategy materials presented. Responses are provided in italics.

Question #1) The Table 1 Spent-to-Date figure of \$50.1 million is different from the \$51.3 figure shown in the Table 2 Revenue Summary Life-to-Date figure, is there a reason?

Response: The difference can be attributed to the \$1.2 million in Park SDC's that were received from the Bureau of Parks and Recreation for the Neighborhood Park. Footnote #1 of Table 1 – Spent to Date, was amended to explain the difference. A revised Table 1 is attached.

Question #2) What are the financing costs associated with issuing bonds? (Note: the following response was jointly developed by staff from PDC and OMF).

Response: The total financing costs associated with the issuance of debt in the North Macadam URA is dependent on several factors that will not be known for certain until the longest maturing bonds in the URA are repaid and the incremental assessed value of the URA is returned to the tax rolls. However, based on a set of assumptions deemed reasonable by PDC and OMF and comparable to other capital financing assumptions used by the City, the revenue forecast currently anticipates the issuance of approximately \$204 million in long-term debt in the URA through FY 2019-20. Total debt service costs (principal and interest) associated with the long-term debt is estimated at about \$400 million.

PDC staff and the City of Portland Office of Management and Finance have prepared a revenue forecast for the North Macadam Funding Strategy Update that provides a projection of future debt issuance in the URA based on the projected timing and growth of tax increment revenues in the URA. As in all urban renewal districts, the revenue forecast for the North Macadam URA calls for long-term bonds to be issued in multiple series over an extended period of time. The specific timing of long-term debt issuance will be driven both by the availability of tax increment revenues and the expected timing of expenditures in the URA.

The most critical factors in determining the debt service to be incurred in any URA include:

- *The amount of long-term debt issued in the URA. The amount of long-term debt issuance for any URA will be less than the maximum indebtedness for the URA*

since a portion of the maximum indebtedness will be issued as short-term “du jour” or “pay-as-you-go” financing.

- *The prevailing level of interest rates at the time the debt is issued.*
- *The federal tax status of financings incurred in the URA (taxable vs. tax-exempt), which will affect the interest rate at which the bonds are issued.*
- *The term and amortization structure of the long-term debt issued. The City and PDC have typically structured tax increment bonds with a 20-year, equal annual debt service schedule, but it is possible that bonds could be issued for a longer or shorter term or with an alternative amortization structure, depending on the specific financial factors in place at the time bonds are proposed to be issued.*
- *The timing and growth of tax increment revenues in the URA over the life of the district. It is possible that the growth in tax increment revenues may not be sufficient to allow the URA to issue its entire maximum indebtedness by the time the URA must cease issuing debt (for the North Macadam URA, this is June 20, 2020). Conversely, if tax increment revenues grow faster than expected, the City may be able to repay outstanding bonds prior to maturity, thereby reducing total debt service costs.*

As with all long-term borrowing, be it for a tax increment bond issue or for an individual’s own home mortgage, interest costs incurred over the extended term of the bonds (or loan) results in total debt service higher than the amount borrowed. As noted above, many factors affect the amount of long-term debt issued in a URA, and the total interest costs to be incurred over the life of the bonds. As such, any forecast of long term total financing costs in the URA will only be a reasonable estimate based upon assumptions made at the time the forecast is prepared.

It should also be noted that these debt service costs are recorded in a City of Portland debt service fund. PDC’s tax increment revenues reflect the net amount projected to be expended for projects.

Question #3) What average per square foot construction costs were utilized to project district revenues?

Response: Staff used average square foot values obtained from a local appraiser: housing - \$400 - \$500 per sq. ft., office \$275 - \$300 per sq. ft. The average figures utilized were: \$450 per sq. ft. for residential, and \$288 for office. These values reflect current Real Market Value.

Question #4) The map presented is not accurate in terms of the URA boundary; a section of I-5 is not depicted.

Response: Staff is researching how to correct this technical error. The GIS map is clearly in conflict with the map shown in the URA Plan.