



Charter, Code and Policies

City of Portland

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ENB-6.02 - Local Improvement District Financing Policy

edit content

LOCAL IMPROVEMENT DISTRICT FINANCING POLICY

Binding City Policy

BCP-ENB-6.02

A. Purpose and Intent.

The LID Financing Policy is intended to facilitate the use of the local improvement district process in a manner which protects the City's financial condition. The Policy prescribes a process to (1) evaluate the financial feasibility of local improvement projects, (2) measure financial risk of project default, and (3) identify sources of financial security for long-term assessment financing. Through this process, the City will be able to make reasoned policy decisions about the purpose of the local improvement, the responsibilities of property owners, the contributions (if any) of City resources, and the means of responding to financial risk.

B. Findings.

1. The City of Portland forms, finances and constructs more than \$1 million in voluntary local improvement district projects, annually.
2. The City of Portland has provided financial security for local improvement projects by pledging the City's taxing authority.
3. Ballot Measure 5 imposes new restrictions and conditions on the use of the City's taxing authority by requiring City-wide voter approval of general obligation improvement bonds.
4. Existing local improvement district financing policies do not address the changing requirements of Ballot Measure 5.
5. It is critical to the long-term financial health of the City to have financial policies which protect City resources, and provide adequate security for City bondholders.
6. The local improvement district program is an important method for financing local transportation, sewer, water and other capital improvements.
7. The City's local improvement district financing policy must be responsive to the varied financial requirements of each local improvement district.

C. Responsibilities.

The following general responsibilities will govern the evaluation of a proposed local improvement project prior to City Council adoption of an ordinance to form a local improvement district:

1. The chief petitioners shall be responsible for responding to any financial concerns or conditions raised by the City as a result of a technical or financial evaluation of the proposed local improvement project.
2. The lead public works bureau shall be responsible for assisting property owners with the procedures to file a petition to form a local improvement district. To the greatest extent possible, the bureau should attempt to identify financing issues early in the petition process, and include the Auditor's Office in a review of possible financial options.

3. The Auditor's Office shall be responsible for evaluating the financial feasibility and measuring the financial risk of a proposed local improvement project based on this Policy.

D. Feasibility Tests.

The City Auditor shall use the following tests when evaluating the financial feasibility of a local improvement project. These tests, and any resulting financial security issues, shall be completed and addressed before the Auditor's Office prepares and files an ordinance to form a local improvement district. The Auditor's Office will perform the financial evaluation with assistance and involvement from public works bureaus, the Office of Finance and Administration, the Portland Development Commission, petitioners and other interested parties.

Feasibility Test	Standard or Condition
Value to Assessment Ratio	Individual properties must have a value to assessment ratio of 2:1 or greater. Exceptions to this standard will be accepted for aberrant ratios as noted under Waiver Criteria.
Aberrant Value to Assessment Ratio	Ratios below 2:1 will be accepted on properties representing no more than 5% of estimated assessments. No individual aberrant property may represent more than 2% of estimated assessments. No individual aberrant property may have a ratio less than 1.5:1.
Diversity of Ownership	The City will require additional security for projects where 3 or less property owners represent more than 50% of estimated assessments.
Diversity of Development	The City may require additional security for projects involving vacant property which represents more than 25% of total assessments.
Bankruptcy	The City will require additional security for properties which are involved in a bankruptcy proceeding.
Waiver Criteria	<ul style="list-style-type: none"> ·Project involving less than 12 properties, and for which more than 75% of assessment estimates are on residential property. ·The value to assessment and aberrant ratio standards may be waived if affected property owners file financial statements demonstrating ability to pay assessments, and if total real market property value exceeds total taxes and assessment liens. ·Publicly owned property is exempt from all feasibility tests. ·The project advances expressed City goals or objectives, and adequate security is identified by City Council. ·The project is included in an urban renewal area, and is secured by the Portland Development Commission.
Conditions for Developer LIDs	<ul style="list-style-type: none"> ·Developer/chief petitioner files current financial statements. ·No delinquent property taxes or assessments. ·Bond, letter of credit or other security equal to total project costs.

E. Improvement Bond Program Security and Structure

The City Council shall use the following security arrangements and bonding structure when approving long-term financing of local improvement assessments. These guidelines are intended to provide adequate financial securities to market limited general obligation improvement bonds at the lowest possible interest cost to property owners. In addition, the guidelines set forth the order of security to be provided in the event that a property owner defaults on a local improvement assessment loan.

Security or Structural Consideration	Standard or Condition
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Lien Enforcement	The City shall use active collection and foreclosure practices to collect delinquent local improvement assessments.
Primary Security	The City places a municipal lien on property to secure local improvement assessments. Additional security is pledged by developers based on the value to lien ratio test of 2:1.
Secondary Security	The City shall adjust the interest rate on local improvement assessment loans to provide for insurance for improvement bonds. The adjustment shall be determined by City Council, based on a recommendation of the Office of Finance and Administration, the Auditor's Office and the City's financial advisor. The interest rate adjustment shall be fixed at the time the Auditor's Office sets the permanent interest rate on assessment loans, following a bond sale. Proceeds shall be deposited in a dedicated reserve account to be used to cover debt service payments in the event of an assessment loan default.
Ultimate Security	The General Fund shall be ultimately responsible for securing improvement bonds. In the event that a property owner default of an assessment loan requires debt service payments beyond the coverage established in improvement bond reserve account, City enterprise funds shall make payments on behalf of the General Fund as set forth in the bond sale ordinance. Participation by each enterprise fund shall be proportionate based on the types of local improvement projects involved in the bond sale.
Interest Rate Bump	The Auditor's Office and Office of Finance and Administration shall provide that the interest rate adjustment authorized by City Code is sufficient to administrative costs, cash flow requirements and the reserve requirements set forth in City Code and this Policy.
Contract versus Bond Length	The City shall structure improvement bonds to mature at least 2 years following the last scheduled installment payment of an assessment loan financed by the bond sale.
Bond Amortization Schedule	The City shall offer monthly and semi-annual installment plans for the convenience of property owners. The City shall encourage early payoff and prepayment of assessment loans and use of 10 year loan terms wherever possible.

F. Definitions

The following definitions are used for the purposes of this Policy:

Aberrant Value: Exceptions to set criteria.

Assessment: Share of public improvement costs apportioned to LID property based on the total Actual Cost (defined in HB 2550) less any project subsidy.

Bare Land LID: An LID which includes predominantly unimproved land.

Bond Reserve Fee: A separate fee (distinct from Financing Fees) charged to property owners to provide a separate reserve fund as additional security for the bonds issued to finance assessment contracts.

Contingent Liability: Potential debt service payments (including unrecovered principal repayment after the foreclosure and sale of property) to be paid if assessment payments are not made on a timely basis.

Developer LID: Local Improvement District formed to install public improvements (streets, sidewalks, lighting, sewers, or water) before private improvements are constructed or completed.

Financing Fees: Charges to LID participants who elect to finance assessments which cover the cost incurred by the City in the provision of such financing. These costs include, but are not limited to, fees to consultants, bond counsel, underwriters and paying agents, and the cost of preparing and printing the official statement.

Letters of Credit: An irrevocable commitment by a credit worthy bank or financial institution to make payments upon demand. Generally required by a developer wishing to proceed with an LID which does not conform to financial criteria established by the City. The Letter of Credit (LC) is generally posted for the estimated total cost of the improvements and subject to draw by the City without further approval.

Lien: Legally enforceable claim on the property second only to taxes and superior to other mortgage liens.

Property: Land, identified by a discrete tax lot number, plus any existing improvements to the land.

Property Value: Real Market Value as determined by Assessor in conformance with HB 2550 or an appraisal by a certified (MAI) appraiser of the market value of the property as of the completion of the public improvements.

Total Liens: All taxes due (current, deferred and delinquent), existing and proposed City assessments, mortgage, and any other legal claim on the property, regardless of lien position.

Value to Lien Ratio: The value of the property, less any taxes or co-equal liens, compared to the estimated LID assessment.

HISTORY

Filed for inclusion in PPD December 4, 2003.

Resolution No. 34847 adopted by City Council May 3, 1991.
