

# **Clackamas County – City of Milwaukie Urban Services Study: Financial Analysis+**

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## **EXECUTIVE SUMMARY**

The provision of local government services within the urbanizing area of northwest Clackamas County has posed a difficult challenge for a number of years. This report examines the financial aspects of providing urban services to a study area with the following boundaries: the Clackamas County/Multnomah County line to the north, Interstate 205 to the east, highway 224 to the south, and the City of Milwaukie to the west.

At the request of Clackamas County and the City of Milwaukie this document was prepared to provide a comparative financial analysis of the costs and revenues associated with the provision of urban services for the study area under the following scenarios: 1) the study area remains an unincorporated area within Clackamas County, 2) the study area is annexed by the City of Milwaukie. Joint delivery of services through contracting or intergovernmental agreements was also considered where appropriate within the context of these two scenarios.

Uncertainty has surrounded the provision of urban services in this area. Such ambiguity potentially jeopardizes the stability and level of services provided to study area residents in the future. Determining the fiscal feasibility of alternative service delivery scenarios can help clarify this issue and ensure that study area residents receive the services appropriate for an urbanizing area, and that these services are provided in an efficient manner.

As described above, this study is a financial analysis only, and is not designed to explore the potential benefits or costs of annexation to study area residents. This study examines revenues and expenditures related to providing urban services, but does not explore quality of service issues. The intent of this study is to examine the fiscal feasibility of alternative service delivery options. In part, this analysis will be used to determine whether further analyses of issues, such as quality of service or costs and benefits to study area residents, are warranted and should commence.

Section I of this report provides contextual information pertaining to the need for an urban services study. Section II describes the financial analysis procedures and results. Some of the findings of the analysis are summarized below.

## **DISCUSSION OF RESULTS**

### **Milwaukie**

The analysis shows that a full annexation of the study area would be fiscally beneficial to the City of Milwaukie over the twenty-year study period. Before accounting for increased capital

expenses, the City would see a fiscal gain of \$700,000 per year in the short-term. In the short-term, annexation would increase the City's revenues by \$5.5 million each year, while increasing operating and maintenance expenses by only \$4.8 million.

By the end of the twenty-year study period, we estimate that the city would see a fiscal gain of \$1.3 million per year, before accounting for increased capital expenses. This is based on projected increased revenues in the long-term of \$7.9 million each year minus long-term increased operating costs of \$6.6 million each year.

Increased capital expenses related to annexation would affect the City's potential fiscal position. With annexation, Milwaukie would incur an additional \$10 million in capital costs for road projects. These costs would occur in uneven increments throughout the twenty-year planning period. When these capital costs are accounted for, a full annexation of the study area would put Milwaukie in a negative net fiscal position for the first four years. The losses during these first four years would be relatively small (approximately \$200,000 in total), and may be within the margin of error of this study. Milwaukie would experience a positive net fiscal position every year following 2005. Milwaukie's total net fiscal gain for the entire twenty-year planning period would be \$11.4 million, an average of \$545,000 per year.

### **Clackamas County**

The analysis shows that annexation of the study area to the City of Milwaukie would also be fiscally beneficial to Clackamas County. Before accounting for a decrease in capital expenses, the County would see a fiscal gain of \$3.8 million per year in the short-term. Annexation would decrease the County's operating and maintenance expenses by \$3.7 million each year, and actually increase the County's revenue by \$107,000 each year.

By the end of the twenty-year study period, we estimate that the County would see a fiscal gain of \$4.8 million per year, before accounting for decreased capital expenses. This is based on projected cost savings for operating and maintenance of \$4.7 million each year, and increased revenues of \$102,000 each year.

The projected increased revenue to the County is a product of urban renewal. The county would continue to maintain the two urban renewal areas located within the study area. Application of the city's higher tax rates would account for the increased revenue to the county. It is important to note that urban renewal revenue is somewhat limited in use in that it can only be applied to projects in the County's urban renewal areas.

With annexation, Clackamas would save \$10 million in capital costs for road projects, which would be shifted to the City. This transfer of costs would improve the County's net fiscal position as a result of annexation. The County's total net fiscal gain for the twenty-year planning period would be \$100 million, an average of \$4.8 million per year.

Overall, the analysis indicates that annexation of the study area to the City of Milwaukie could be fiscally beneficial to both jurisdictions. The combined net fiscal gain of the two jurisdictions

over the twenty-year planning period is projected to be \$111 million, an average of \$5.3 million per year. The projected net fiscal gains related to annexation are a product of increased revenues from property taxes, greater access to state revenue sources for the study area, and cost efficiencies in some expenditure categories. The Oregon state government provides highway tax, cigarette tax, liquor tax and other revenues to localities. These revenues are distributed based on population and other measures. The funds are provided from separate pools for cities and counties. Since annexation would increase the population of the City of Milwaukie without decreasing the population of Clackamas County, annexation would greatly enhance the share of state revenues drawn by the study area. In the short term annexation would result in a net increase in revenue of \$5.7 million per year for the City and County combined. Approximately 13 percent of this increase (approximately \$700,000) would come from access to state revenue sources.

Several strategies could be developed to alleviate the negative net fiscal position that Milwaukie would face in the first few years following annexation. Such strategies include appropriate phasing of the annexation, realignment of the urban renewal area boundaries, delayed construction of road projects, or sharing of certain road project costs. In conducting the analysis, we divided the study area in three sub-areas, defined by dominant land use characteristics, and in part by Urban Renewal Area boundaries. Each of these sub-areas has a distinct and different impact on local revenues and expenditures and would yield unique fiscal impacts in the case of annexation. The suggested phasing strategies are based on this sub-area analysis. These strategies are outlined in Chapter 6, *Analysis and Conclusions*.

While we project that annexation would be fiscally beneficial to both the City and the County, it could also provide stability in the provision of urban services to the study area and ensure a level service appropriate to an urbanizing area. Annexation could also provide study area residents with a more direct input into local government decisions and policies. Milwaukie is a much smaller locality than Clackamas County, and the study area would represent a significant portion of the Milwaukie population. Clearly, annexation of the study area would involve extensive consultation between the citizens, elected officials, and professional staffs in the two jurisdictions. This analysis indicates that further examination of the potential implications of annexation – including the potential benefits and costs to study area residents – is warranted.

## **SUMMARY OF CONCLUSIONS**

Chapter 6, *Analysis and Conclusions*, outlines the following eight conclusions of this analysis:

- 1: Before accounting for capital expenses, full annexation would be fiscally beneficial to the City of Milwaukie.
- 2: Before accounting for capital expenses, full annexation would be fiscally beneficial to Clackamas County.

- 3: Operating costs of providing services to the study area are similar for the City and the County.
- 4: The projected fiscal gains related to annexation are largely a product of increased revenues from property taxes and greater access to state revenue sources for the study area.
- 5: When capital costs are accounted for, a full annexation of the study area would put Milwaukie in a negative net fiscal position for the first four years. Milwaukie would experience a positive net fiscal position every year following 2005. The losses during these first four years would be relatively small (approximately \$200,000 in total), and may be within the margin of error of this study. Over the twenty-year planning period, the City would experience a total net gain of \$11.4 million, which averages to approximately \$545,000 per year.
- 6: When capital costs are accounted for, a full annexation of the study area would have a positive net fiscal impact for Clackamas County. The County's total net fiscal gain for the twenty-year planning period would be \$100 million, an average of \$4.8 million per year.
- 7: After accounting for capital cost transfers, annexation of Sub-Area B, the Industrial Area, would yield positive net fiscal impacts for both the City and the County in all years of the planning horizon. Annexation of Sub-Area C, the Residential Area would yield a positive fiscal impact for the City only after the second year of the planning horizon, but would yield a positive net fiscal impact for the County in all years. Annexation of Sub-Area A, the Town Center Area, would yield a negative net fiscal impact for the City in all years and a positive net fiscal impact to the County in all years.
- 8: Annexation provides a service delivery alternative that is financially feasible and potentially beneficial to the City, the County and residents of the study area. Further discussion of this option is warranted.