Making It Happen: Local Fiscal Capacity, Regional Success and Metro
Last fall, I invited students in USP 549: Regional Planning and Metropolitan Growth Management class to address the question of how the variance in abilities of the cities and the counties to deliver urban services was affecting the Portland Metropolitan Region’s ability to achieve our goals for vibrant communities, a prosperous economy, and a healthy natural environment. Specifically, I asked whether Metro should or could address the disparities among the communities by convening local governments, conducting research, creating incentives for local governments to work together, providing greater direct service at a regional level, or regulating in some way.

This report is a solid step forward in beginning a conversation about whether the variance in our local government’s abilities to deliver core urban services is holding our region back from realizing the economic opportunity, vibrant neighborhoods, and environmental quality that our residents desire. In particular, the report makes a case for why these differences matter to our entire region – not just to the communities that are struggling to deliver services. The report also highlights how Oregon’s property tax system has affected three specific communities in the region, and how property tax limitations locked in the disparities among cities and towns. Whatever limits or advantages cities had when Measures 5 and 47/50 passed have persisted, creating a permanent set of communities that struggle to provide law enforcement, fire protection, parks, and other urban services.

This report concludes that Metro should collaborate with all of the jurisdictions in the region to develop a shared understanding of the fiscal constraints facing our cities and counties and to discuss how the disparities limit the entire region, not just the communities with budget challenges. Perhaps most importantly, this report reminds us we must view this as a long term issue that will bind the region together whether we address it or not.

Strong urban services in all communities are vital ingredients for a livable, prosperous, sustainable, and resilient region. I appreciate the work of students of USP 549 in adding new perspective and research about how we can address this important public policy issue as a region.

Sincerely,

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Executive Summary

During fall term, 2013, the students in USP 549: Regional Planning and Metropolitan Growth Management, offered as part of the Master of Urban and Regional Planning program of the Toulan School of Urban Studies and Planning at Portland State University, were invited by Martha Bennett, COO of Metro, to explore the following question:

“The economic gaps between the communities that are prospering in the region and those that are struggling is growing. If Metro wanted to use its authorities to help mitigate that gap, what would be the best tools to use? Metro has categorized its tools in the following general categories: invite (convene); inspire; teach (research and model); provide financial incentives; provide as a direct service; and regulate.”
To explore Martha Bennett’s question, and the possibility of Metro providing a means for this region to address issues associated with differences in local fiscal capacity in this metropolitan setting, the class was divided into five working groups:

- **The Metropolitan Context in general in the US**: What is the case for being concerned with and attempting to address differences in fiscal capacity among jurisdictions in the region?

- **Strategies for Addressing Fiscal Capacity as a regional issue in other metros**: Best practices, Minneapolis case study of tax base sharing, legal issues, etc.

- **History of Fiscal Capacity as a Regional Issue here**: How have differences in fiscal capacity between jurisdictions emerged here over the last 40 years? Have they always been the same? Have things changed? What decisions mattered, and where?

- **Fiscal Capacity Conditions Here Today**: What are the actual differences in fiscal capacity among jurisdictions within Metro’s boundaries, and what are the trends? Definition and application to the Portland region.

- **Strategies for Addressing Fiscal Capacity here**: What aspects of the gap in fiscal capacity among jurisdictions should be Metro concerns and what can/should Metro do about it?

Much has been written about the relationships between jurisdictions in a metropolitan setting, and the importance of understanding metropolitan regions as vital economic building blocks for the national economy as a whole. In particular, Myron Orfield lays out three reasons for caring about fiscal capacity at the metropolitan scale in his book, *Metropolitics*. First, it allows for the fair provision of basic services to residents of the region. Lower tax base communities are often left paying higher tax rates for substandard infrastructure and services, while higher tax base communities often have better resources and are able to enjoy them at a lower tax rate.

Second, a concern for fiscal capacity at a regional scale would lead to the reduction of wasteful competition. This is particularly an issue in regions where sales taxes are essential elements for funding local public services and facilities. It is wasteful for jurisdictions to compete for a business that has already decided to locate in a particular region.

Finally, a concern for fiscal capacity at a metropolitan scale could enable disadvantaged communities to better meet the needs of residents and contribute usefully to the overall economic health of the metropolitan area. As the tax rate disparity between high- and low-income communities is reduced, the jurisdictions will be better equipped to deal with repairing or replacing aging or substandard infrastructure. This reinvestment will make these communities more vibrant and attractive, which will benefit the current residents, as well as enhance the attractiveness and competitiveness of the region at large.

Indeed, other metropolitan regions in the US have explored ways of addressing differences in fiscal capacity at the regional scale. Cases are reviewed, and the following lessons learned were gleaned from those experiences:
Developing a Tax-Base Sharing Program

1. Framing is of the utmost importance. Minneapolis found that their message had to be crafted to show region-wide benefits rather than “share the wealth,” or “redistribution.”

2. All the places that used a sales tax to do tax-base sharing were places that already had a sales tax in place to begin with. This likely could not be repeated in Portland since there is currently no sales tax at all.

3. Whenever a new property tax is levied for tax-base sharing, it should only apply to properties built after the year the law went into effect to make the program more politically feasible.

4. Consider the role of the airport or other large commercial/industrial zone projects. Should they be part of the program? Justify these decisions to the public.

5. Limiting the length of the tax-base sharing agreement is one way to shore up political support in favor of the program. This way there is automatic review of the program after a given number of years and parties can opt out in the future. However, this weakens the overall effectiveness of the program because it decreases the certainty of revenue streams.

6. It is important for all the parties involved in the tax sharing arrangement to fully understand and agree on all the provisions of the program. If the agreement is unclear, it will lead to legal battles down the road.

7. It is important to anticipate adverse situations, such as a major drop in tax revenues, and to have contingency plans in place.

Increasing Effectiveness of Tax-Base Sharing

1. Configure other tax incentive programs to work with your fiscal capacity program.

2. Include more than just a tax on commercial and industrial properties; otherwise, wealthy bedroom communities do not have tax base included in the sharing agreement.

3. Transparency and tracking are important, both in garnering long-term public support and for understanding the effects of your program.

Takeaways from Outcomes of Tax-Base Sharing Programs

1. Tax-base sharing can help increase political support for regional planning.

2. There are not many examples of a program involving more than two jurisdictions. This speaks to the political difficulties of getting entire regions to work together to address fiscal capacity differences.

3. Tax-base sharing enables leveraging the wealth of the entire region to create a long term project that is a wealth generator, like the Mall of America.
Regional Service Sharing & Consolidation

1. Service sharing between municipalities can save money that would otherwise be spent on duplicative services.

2. Service sharing is the only method we found to decrease expenditures, as opposed to increasing revenue.

3. Conditions in regions that consolidate their city and county are very different than the conditions that exist in the Portland metro region. Consolidation here would likely not be politically feasible.

Differences in fiscal capacity among jurisdictions in the Portland region are not new. To explore this history, three cities were chosen to provide a comparative evaluation of jurisdictions with high vs. low capacity and inner ring vs. outer fringe locations.

Several key points emerged from this research. The first was the influence of median income on communities, which correlates with property values and therefore property tax revenues. As was described in the case studies, Lake Oswego, a suburb with high property values, is a high capacity jurisdiction, whereas Gresham and Cornelius, with much lower property values, also have much lower fiscal capacity. Put another way, there is a direct link between income, property values, and fiscal capacity.

Orfield notes that in a system in which local jurisdictions are dependent on property tax revenues and also in control of comprehensive land use planning, cities will attempt to use fiscal zoning to competitively attract revenue-generating industries and higher income residents (Orfield 1998). In Cornelius, faced with low revenues and high service costs while feeling constrained by statewide land use laws preventing urban expansion, city officials engaged in a protracted battle with Metro and the State in an attempt to use fiscal zoning to increase capacity. The story of Gresham is complex. A low permanent rate, the annexation of areas underserved by infrastructure, and more than its share of affordable housing leaves Gresham facing perpetual revenue shortfalls.

Possibly the most important finding that emerged through our research, aside from the fact that much of the variation in fiscal capacity simply boils down to differences in property values, is that the implications of Measures 5 and 50 run deep in this region. The lasting impacts of the “taxpayers revolt” of the 1990s created a system in which fiscal differences were locked into place for all time. As a result, those cities that were doing well when the measures passed continue to do well whereas those that were not are destined to struggle fiscally. Revenue growth is frozen in time as a consequence of the permanent tax rates, the decoupling of assessed values from market value, and incremental annual growth rates that are not tied to inflation.

Today, Lake Oswego remains a high-property-value suburb with high fiscal capacity and positive socio-economic conditions (educational attainment, median income, etc). In contrast, Cornelius and Gresham are low-property-value suburbs with lower fiscal capacity and more negative socio-economic indicators (i.e. percentage of households in poverty).
Although these cities are defined more by what differentiates them, they have a few important similarities. First, all three cities are primarily residential and therefore depend mainly on residential rather than commercial/industrial property taxes. For example, 90 percent of Gresham is zoned residential. Second, all three are heavily reliant on property taxes to pay for City services such as police, fire, parks, and libraries, which are funded through the general fund. For example, in Cornelius and Gresham, property taxes account for almost half of the general fund revenue sources.

In general, in the region today, the median household income of the High Capacity Suburbs is over 31 percent higher than the Low Capacity Suburbs. Over the past decade, the assessed value per household in High Capacity Suburbs increased more than the value in the city of Portland and the Low Capacity suburbs. The cities with the highest median home values and those that experienced the highest percent change in median home values between 2000 and 2011 were overwhelmingly High Capacity Suburbs. However, the region’s population has been increasingly living in Low Capacity Suburbs, which saw larger absolute increases in the percent of families falling below the poverty level.

High fiscal capacity roughly correlates with positive demographic and socioeconomic indicators such as higher employment, income, and education attainment. The share of the population having attained a bachelor’s degree or higher in 2011 was 41 percent in High Capacity Suburbs compared to 27 percent in Low Capacity Suburbs. Low Capacity Suburbs seem to be seeing slower job growth. In terms of land use, Portland had a slightly higher population density than the Low Capacity Suburbs, and the High Capacity Suburbs had a significantly lower population density than either of the other two groups. This suggests that High Capacity Suburbs could be using growth management controls to limit density.

In addition to city and county governments, special purpose districts serve as viable and important mechanism for providing services to residents. They may be useful in reducing disparity, as they are not bound to city boundaries and politics to the same degree. Only 3 percent of property taxes in Multnomah County went to special districts in 2011-12, compared to 19 percent for Clackamas and Washington counties. This shows that fiscal capacity of special districts in Clackamas and Washington counties is substantially tied to property values, although not to the same degree as it is for city governments. This also suggests that special districts may play a more important role in Clackamas and Washington counties, which are more rural and may benefit more from the economies of scale that service districts can provide to large areas with fragmented and smaller municipal governments.

A focused analysis of school districts found inequity in outcomes throughout the region. School quality, however, is not correlated with per pupil spending as may be expected, but there appears to be a relationship with local source revenue (property tax) per student. While not linked directly to the funding for educational services, this indicator reflects community capacity to provide conditions that support higher student performance. Generating more revenue for schools through property taxes will not necessarily improve student outcomes, but increased assessed value will reflect and reinforce changes at a community level in ways that affect schools.
In sum, through this project, we have determined that:

1. **Metropolitan regions share a common fate.** There is mounting evidence pointing to the metropolitan, not city or county or even state scale as the major building block for the US economy. Furthermore, there is also evidence that demonstrates that jurisdictions in a metropolitan economy are more interconnected than previously thought. Simply put: everyone does better when no one is left behind. The gap between economically secure and economically struggling jurisdictions is and should be of concern to all those jurisdictions, institutions, and individuals concerned about the long-term economic prosperity for both the metropolitan area and their own more local interests.

2. **Measures 5 and 50 locked in local municipal public finance to the pattern of capacities present at the time they were created.** Stated another way, measures 5 and 50 mean that jurisdictions lacking fiscal capacity before the passage of those measures are fated to always lack needed fiscal capacity because of those measures. They cannot “grow” their way out of the bind they’re in.

3. **Metro is very limited in what it can do to unilaterally address issues of fiscal capacity among jurisdictions in the metropolitan area.** It does not have the capacity to regulate, provide, or incent the development of new means for ensuring that jurisdictions are capable of meeting their needs on their own, either through unilateral or shared redistributive means.

4. **Addressing issues associated with fiscal capacity needs to occur through a collaborative process involving all of the jurisdictions in the metropolitan area.** The first step is the development of a shared understanding of the fiscal constraints facing area jurisdictions and, most important, the likely extrajurisdictional impacts of inadequate local fiscal capacity on neighboring jurisdictions and the long term health and vitality of the metropolitan economy shared by all.

5. **This is not a short-term, easily solved problem.** It needs to be framed by a larger concern for a livable, prosperous, sustainable, and resilient region, one where local conditions are important and the value of a prosperous region is understood both locally and regionally. We have done this before.

We can do it again.
Introduction

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In US metropolitan regions, part of the cost of local control over land use, taxation, and development is the requirement that each jurisdiction identify and
pay for the services needed and wanted by its residents. In this kind of “Tiboutian world,” if you, as a resident, don't like the services you're getting where you live or do business, or if you want a different mix, pack up and move to the town next door to get the package you want. In this sense, jurisdictions, so the theory goes, operate in a competitive market, and if city hall is attuned to the desires of the consumers/citizens it wants to attract and retain, it can tailor the public goods it offers to do so.

Though this perspective is strongly supported by the localism that characterizes American planning and public service delivery, it suffers from a number of problems:

- Not all jurisdictions have the same access to resources and to households, particularly households with resources.
- Not all public goods that matter in household or firm locational decisions are under the control of local jurisdictions.
- No jurisdiction is an island, and instead, all jurisdictions depend on services, flows, systems, and dynamics that far exceed jurisdictional boundaries.
- No jurisdiction lives within its own economy.
- Growing local fiscal capacity is tremendously difficult, jurisdiction by jurisdiction, in a metropolitan economy and context.
- In addition, the impacts of local decisions are rarely contained solely within the boundaries of the jurisdiction making them.

As appealing as the market view of jurisdictions in a metropolitan economy may be to some interests, it is best understood as an ideological position rather than as a fact or “law of nature.”

Nonetheless, the fact remains that individual jurisdictions have a tremendous amount of power to acknowledge or deny their role in a metropolitan setting. The choice as to whether issues in the jurisdiction next door will affect their own decisionmaking is, in the American tradition, up to the jurisdiction making the decisions. In the Portland region, Metro, the only directly elected regional government in the US, may have to opportunity address the regional implications of differences in local fiscal capacity in ways not shared by other metropolitan areas with weaker forms of metropolitan governance.

To explore Martha Bennett’s question, and the possibility of Metro providing a means for this region to address issues associated with differences in local fiscal capacity in this metropolitan setting, the class was divided into five working groups:

- **The Metropolitan Context in general in the US:** What is the case for being concerned with and attempting to address differences in fiscal capacity among jurisdictions in the region?
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• **Fiscal Capacity Conditions Here Today:** What are the actual differences in fiscal capacity among jurisdictions within Metro’s boundaries, and what are the trends? Definition and application to the Portland region.

• **Strategies for Addressing Fiscal Capacity here:** What aspects of the gap in fiscal capacity among jurisdictions should be Metro concerns and what can/should Metro do about it?

The products of the working groups have been used to produce the following sections of this report. Please note that the information presented here, and any opinions expressed below, are solely those of the class, and are not to be regarded as either the products or positions of Metro. We hope that this document helps to promote a robust discussion of the shared future for this metropolitan area, and the roles that all jurisdictions, including Metro, can play in making it as positive and beneficial as possible.
Regionalism is not necessarily a new concept though it has a new context. Historically, markets organized regionally. In the early 13th century, the cities of Lubeck and Hamburg, recognizing that their strategic locations, complementary economies, and economic goals made them ideal allies, drafted a trade treaty that led to the eventual creation of the Hanseatic League, which included at least six cities within the Baltic region (Katz & Bradley, 2013, p. 166). The League innovated new food storage strategies, ship-building techniques, and eventually won political influence. Bruce Katz and Jennifer Bradley share the history of the Hanseatic League in *The Metropolitan Revolution* in order to underscore the truths that places that collaborate economically to compete globally will thrive and that complementary trading clusters lead to unexpected innovations.
Until recently in American history, the federal government has not been heavily involved in regional development. During the Great Depression and both World Wars, the federal government increased its involvement in states’ matters by providing money for programs to boost the economy. To support regional planning during the Great Depression, the federal government created the National Resources Planning Board, which, perhaps in recognition of the fiscal turf of states and localities, was later renamed the National Resources Committee.

Lately, regional planning has been taken up by cities or business associations that wish to coordinate growth and markets between and among cities near each other. Without such cooperation, one jurisdiction might create a growth plan that negatively impacts its neighbor.

One of the most enduring ways of thinking about fiscal capacity was created by Charles Tiebout. For Tiebout, the world has a large number of communities offering different and fixed levels of local public goods. People “vote with their feet” to choose their most preferred community and its mix of public goods. There are several important assumptions for Tiebout’s model, which he developed in 1956 (p. 417).

- First, consumers are perfectly mobile. There is nothing to prevent someone from moving to the community with the preferred public goods.
- Second, there is full information. All people are given complete information about the different public goods offerings.
- Third, there are a large number of communities. People have many public goods bundles from which to choose.
- Fourth, all income is from dividends. Income is not restricted by location.
- Fifth, there are no spillovers among communities. Each community is insular.
- Sixth, the average cost of providing public goods as a function of population is U-shaped. Each community has a cost-minimizing population size.
- Lastly, communities with population sizes below the cost-minimizing size try to expand and communities with population sizes above the cost-minimizing size try to contract.

Under these seven assumptions, efficiency in a market sense is achieved when communities are the optimal size and people live in communities where the public goods “bundles” are optimal for them.

Although Tiebout’s model is popular today, it was not until Wallace Oates connected the model to property tax capitalization in 1969 that other economists accepted it. Originally many in the field dismissed the model for being unrealistic and unattractive because of its many assumptions (Fischel, 2006, p. 6). Several of the trends that helped promote Tiebout’s model are still present today. Homeownership is still a major goal for many Americans and the quality of school districts is still an important determinant of home values. Also, land use regulations have remained largely local decisions and the power of local government is not often challenged at the state or federal level (Fischel, 2006, p. 9).
Other conditions that increased the model’s prominence since the 1960s, however, might be diminishing. Because household mobility has decreased in recent decades, there are fewer occasions for migrants to consider the quality of local public service bundles. Public school funding is less of a local responsibility due to widespread litigation’s leading to it becoming more uniformed and centralized at the state level and the federal government’s involvement in public education has become more extensive. Other federal-level trends include the resurgence of national defense and federal officials’ being held accountable for local problems even in situations with negligible spillover effects (Fischel, 2006, p. 8).

Nonetheless, Tiebout’s model is still accepted and has had far-reaching effects including transforming the economic analysis of American public schools. Although it is seriously incomplete as a model of local public finance and only works under the most restrictive assumptions, Tiebout’s model remains robust because it was a new way of looking at both economic and political problems. Tiebout’s model presents a world in which people are in motion instead of assuming there is a stationary population dealing with collective decisions. It is that perspective that has remained attractive rather than the model itself (Fischel, 2006, p. 20).

Though popular, Tiebout’s model has its critics. One of these views is that in an efficient market for local government services, residents sort themselves not just by preferences but by wealth (Saiger, 2009, p. 97). Differences in preferences for bundles of public goods are driven by differences in budget constraints and the wealth effects are intensified because local public goods in reality can only be purchased as a basket that includes private housing, leading to stratification. In the Tiebout model, spatial stratification by wealth concentrates poverty, which magnifies the costs of poverty. Concentrated poverty both stresses local government and encourages those with the means to leave, further intensifying the problems. This segregation of the haves and have-nots has led to extremely uneven fiscal capacity within regions.

There are several notable variations and alternatives to Tiebout’s model. James Buchanan’s theory of clubs is closely related (Oates, 2006, p. 38). Like Tiebout, Buchanan explores the nature of shared goods, specifically though joint consumption with a group of consumers sharing a common facility. Unlike Tiebout, there is no spatial component to the public goods. Buchanan reaches a similar conclusion, that for each level of output of public goods, there is a group size that minimizes the costs per person and this is the optimal size group for that level of output.

The regional model (Oates, 2006, p. 39) is also similar to Tiebout’s model, except that individuals must reside in the same jurisdiction where they are employed because it assumes employment constraints. This model is important for location decisions in settings where regions have differing endowments of natural resources that affect both wages for individuals and revenues for governments.

Another alternative model is the theory of fiscal decentralization (Oates, 2006, p. 40). Oates’s decentralization theorem solves the trade off between centralized and decentralized provision of public goods. It states that if the average preferences across citizens of different regions
are equal and the consumption of public goods generates spillover effects, there should be centralized provision of public goods. If preferences differ across regions and spillover effects are absent, decentralized provision of public goods maximizes social welfare. Because local preferences typically differ, fiscal decentralization guarantees the efficient provision of public goods.

Another approach, called incomplete contract theory, applies firm theory to issues of fiscal decentralization (Oates, 2006, p. 37). Caroline Hoxby described the limitation of rent-taking by local services providers in an incomplete contract setting, in which it is impossible to write verifiable contracts under which the legal enforcement is based on information concerning performance, as a serious problem for productivity. There are, however, incentives for local service providers for investing more effort in order to increase local outputs because of local property taxation. Higher levels of local services are capitalized and increase property values, which in turn leads to larger local government budgets because of local property tax rates.

Oates concludes that local property taxation can create a set of incentives that enhances productivity. While a major critique of incomplete contract theory is that it depends on hard to meet conditions, such as unchanging local tax rates even with rising property values, it is important because it illustrates that in a world of imperfect information, Tiebout sorting can both create valuable information for households and important performance incentives as fiscal performance manifests itself in local property values.

Bryan Caplan takes a very different view than Tiebout’s model in his tax capitalization model (2001, p. 119). Combining the assumptions of tax incidence and imperfection of the political process, he views property tax as a way for local governments to stifle competitive pressures that result in people’s ability to relocate and exchange a bad government for a good one. He concludes that with 100% capitalization and democratic restraints too weak to prevent politicians from taking advantage of it, mobility becomes less important.

Similar to Tiebout’s model, in this model localities specialize in satisfying different kinds of preferences, people can relocate to a new locality if their preferences change, and localities differentiate their products to appeal to diverse preferences. The major difference is that where Tiebout sees economic competition as the primary check upon local governments, Caplan states that economic competition makes little difference for local government and instead how well the electoral system works is what matters most. There is considerable room for inefficiencies in local government and it is the property owners that bear the burden of excessive charges for public goods.

The Importance of Regional Economies and the Regional Context

Bruce Katz, author of *The Metropolitan Revolution*, presents several arguments for the importance of the metropolitan region. The first is relevant to the nature of economies. Cities and metropolitan regions, home to 75% of our GDP, are the engines of economic prosperity and social transformation in the United States, and therefore, the appropriate
scale for fiscal growth. All national economies are networks of metropolitan economies and because metropolitan regions are spurred by globalization, the new global order is the new metropolitan order. Today, metros are the new origins of global trade as well as the focus for global investment. They increasingly play the role of exporters, which creates immense market opportunities for their regions. Overall, exporting metro economies are more productive and wealthier (Katz and Bradley, 2013, p. 150).

Regions also embody the economic characteristics of concentration and agglomeration. They are home to innovation clusters and capable of offering more jobs and higher quality jobs. Katz also argues that metropolitan regions are, and historically have been, the frontlines for demographic changes. Today, many metropolitan regions are already home to the diversity that the United States will encounter in the future. Katz asserts that demographic diversity is an asset and that, at the metropolitan level, demographics and success are interwoven (Katz and Bradley, 2013, p. 102).

Katz further details the political advantages for organizing at the regional level. Our federal government is mired in partisan politics and “sabotaged” by Supreme Court rulings. In addition, in response to the Great Recession, both the federal government and state governments are scaling back on the amount of money available to support development. Therefore, says Katz, it falls to metropolitan regions to provide for themselves. As a result, innovations at the metropolitan level will scale up to the federal level and perhaps inform new innovations there as well (Katz and Bradley, 2013, p. 11).

While it may seem that several thriving jurisdictions within a region can carry the region economically, there is growing evidence that regions will perform at their best only when each of its jurisdictions succeeds. Since the 1970s researchers have found that central city and suburban economic development indicators are strongly related (Post and Stein, 2000, p. 46).

There is a positive and significant relationship between the economies of central cities and their suburbs that has been found to be independent of the state’s economy. Thus the economic relationship between cities and their suburbs is in part shaped by conditions that are indigenous to the metropolitan region. Researchers and policy analysts have concluded that disparities between central city and suburban economic growth inhibit overall regional economic development.

A study of the Chicago metropolitan area explores the factors that lead to regional economic interdependence (Hewings, Okuyama, and Sonis, 2000, p. 195). Researchers divided the Chicago area into four parts and utilized a multi-regional input-output model to illustrate the complex interdependencies and explore the benefits to all parts of the region from economic initiatives generated in one area. The interdependencies stemmed from trade flows, commuting and income flows, and interrelational income multipliers. They found that differences in the location of employment among sectors creates multiple employment centers and generates a complex commuting pattern and income flows between employment and residential locations.
within the metropolitan area. There is a clear and strong systematic interdependence of income formation, which mainly originates from journey-to-work trips.

Their findings are important for policy decisions because development programs that target specific struggling areas of a region have spillover effects that may generate development in the rest of the regional economy. While the spillover effects are small in terms of goods or services, they are substantial in terms of income generation.

It is easy to see why people in suburbs should care about the economic health of the central cities because the urban core is home to important assets such as the central business district and cultural amenities. Struggling suburbs have a harder time gaining support from other jurisdictions in the region because they are more invisible and have less political clout. These poor suburbs have neither the political visibility and professional staff of central cities nor do they have any of the valued amenities that are important for the region as a whole. Because reducing disparities between places benefits the whole region, however, it is imperative that even small, struggling jurisdictions receive help from the regional level (Swanstrom, Casey, Flack, and Creier, 2004, p. 11).

It is essential that regions as a whole are competitive to keep up in the global economy (McCarthy, 2000, p. 4). Competitive regionalism differs from competition within a region because it combines the strengths of the region as a whole rather than having the strengths of individual jurisdictions cancelling each other out while competing with each other over something like the location of a new firm. The most important factor promoting competitive regionalism is significant economic linkages between central cities and their suburbs. Declining environment and rising production costs affect the region as a whole because external perceptions and investment decisions are partly based on conditions in and the image of those employment areas. In order to forge a competitive region, there must be successful cooperation that rests on high-quality workers and also transportation and communication infrastructure to increase the region’s economic capacity. This includes regional networking, which can be greatly impeded by regional disparities, especially in educational attainment.

**New Ways of Thinking About Fiscal Capacity**

Today, conversations about regional fiscal capacity are quite sophisticated. There are agencies dedicated to researching regional planning and how it can improve differences in fiscal capacity and grow markets. PolicyLink and the Center for American Progress outline a “policy blueprint to create an economy that works for everyone (Cardenas and Treuhaft, 2013, p. 2).” They argue that when an economy is more inclusive, metropolitan regions experience “stronger, more robust growth.” In other words, inequality is a drag on the economy.

In *The Spirit Level* (2009), Richard Wilkinson and Kate Pickett argue that unlimited economic growth and consumption has gone as far as it can to improve quality of life. As a result, greater inequality within a society results in greater instances of nearly every social problem – across the entire society, not only at the lower end of the social ladder. The problems in
wealthy countries are not caused by not being rich enough. After a certain point, greater wealth does not create better living standards. Instead, the problems in wealthy countries are created by the scale of material differences between people within a society. Where income differences are bigger, social distances are bigger and social stratification becomes relevant. The evidence in *The Spirit Level* supports the idea that there is a shared concern for fiscal inadequacy because improving the ability for low-capacity jurisdictions to provide necessary goods and services creates a more inclusive economy and more opportunities for economic growth.

Chris Benner and Manuel Pastor, noted professors and researchers of regions, believe that what they call “just” growth is desirable, possible, and needed now more than ever. Inequality leads to social tension and political instability, higher uncertainty, lower investments, and, therefore, lower economic growth (Benner and Pastor, 2012, p. 3). Research presented in Benner and Pastor’s book *Just Growth: Inclusion and Prosperity in America’s Metropolitan Regions* indicates that in societies with lopsided growth, those who vote to retain their hold on resources actually reduce growth overall. Growth is affected by the industrial base, past performance, and rate of innovation, while fiscal capacity is a matter of distributional choice and constrained by the structure of the economy, the nature of racial segregation, and the degree of solidarity in a region (Benner and Pastor, 2012, p. 149). They also agree that poverty is a drag on growth.

Further research presented in *Just Growth* indicates that the metropolitan region is the most relevant economic unit in a globalized world. “This is the level at which the intangibles of industrial clusters and innovations occur, this is the level where the argument to couple [equity and growth] has gained ground (Benner and Pastor, 2012, p. 4).” As a result, regions should seek to create places of opportunity and link people to places of opportunity. Another reason for examining fiscal capacity at the regional scale is that many of the most challenging problems in the United States are created by patterns of metropolitan development. Solutions at the regional scale can be more productive because it is the actual scale for many problems and for a confluence of interests.

Myron Orfield, the director of the Institute of Metropolitan Opportunity at the University of Minnesota and a non-resident senior fellow at the Brookings Institution, has made several arguments regarding the effects of differences in fiscal capacity within a region. In his book *Metropolitics*, he argues that a disparity in fiscal capacities creates competition among local jurisdictions in a region. Orfield calls this competition a “zero sum game” that wastes community resources on fighting to bring businesses to a particular jurisdiction within the region (1997, p. 92). While one particular local economy may benefit from the additional jobs and revenue brought by the new business, it is often at the expense of a neighboring community. This community’s losing economy must make up for its loss by either raising its residents’ taxes or reducing the level of services it provides. If, however, business attraction were approached from a regional standpoint, the entire region would experience the resulting benefits instead of just one jurisdiction.
Orfield raises public schools as an example to demonstrate that we have already been thinking about fiscal capacity issues at a regional level. School equalization programs have been adopted at the state level, with the idea that all students within the state should be given an equal opportunity to learn and schools should all be held to the same standards. Striving for consistently excellent schools shows that a concern for regional fiscal capacity is already in place in our society, but that these ideas need to be translated into more extensive and efficient policies (Orfield, 1997, p. 85).

Orfield lays out three reasons for caring about fiscal capacity at the metropolitan scale in *Metropolitics*. First, it allows for the fair provision of basic services to residents of the region. Lower tax base communities are often left paying higher tax rates for substandard infrastructure and services, while higher tax base communities often have better resources and are able to enjoy them at a lower tax rate. Second, a concern for fiscal capacity at a regional scale would lead to the reduction of wasteful competition. This is particularly an issue in regions where sales taxes are essential elements for funding local public services and facilities. It is wasteful for jurisdictions to compete for a business that has already decided to locate in a particular region.

Finally, a concern for fiscal capacity at a region scale could enable disadvantaged communities to better meet the needs of residents and contribute usefully to the overall economic health of the metropolitan area. As the tax rate disparity between high- and low-income communities is reduced, the jurisdictions will be better equipped to deal with repairing or replacing aging or substandard infrastructure. This reinvestment will make these communities more vibrant and attractive, which will benefit the current residents, as well as enhance the attractiveness and competitiveness of the region at large (Orfield, 1997, p. 97).
References:


Addressing Differences in Fiscal Capacity – Lessons from Other Metropolitan Areas

This section of the report will examine strategies used in other regions to address differences in fiscal capacity across jurisdictions. Specifically, it will explore tax-base sharing (with a special focus on the Minnesota Fiscal Disparities Act), shared regional services, and city-county consolidation.
Tax-Base Sharing

A range of tax sharing programs between jurisdictions have been created in the United States since the 1970s. Most of these programs only involve two or three small jurisdictions, but a few have been implemented at the regional level. The most notable regional example has been in the Minneapolis-St. Paul metropolitan area. This section examines tax-sharing programs from throughout the nation and provides an in-depth look at the Minneapolis-St. Paul tax-base sharing program. The taxes shared are one of two types: property or sales.

A. Shared Sales Tax

There are multiple noteworthy examples of sales tax sharing programs that have been implemented in the U.S.; three of which will be discussed here. However, all these examples are located within counties or regions much smaller in population, complexity, and area than the Portland metro area.

Montgomery County, Ohio

Montgomery County, Ohio, which includes the City of Dayton, has a population of slightly over half a million and is located in the western region of the state. The County has been operating a revenue sharing program based on sales tax called Economic Development/Government Equity (ED/GE) since 1992. The ED/GE program functions as two different components that together make the counties’ revenue sharing program one that is aimed at reducing fiscal disparities between different parts of the county (Montgomery County, 2012).

The ED/GE program enables jurisdictions in the region to apply for grants each year (ED) and profit from economic growth in the county regardless of the location of growth (GE). Money from sales tax revenue is set aside for economic development projects within the county to allow for more regional cooperation between jurisdictions. The following is a description of how the program works:

The **ED Fund** awards money biannually for economic development projects within the county through a competitive grant process based on the satisfaction of specific criteria. The criteria are aimed at ensuring project success and give priority to projects that are ready for implementation and can leverage funds from other public and private sources. The degree to which projects limit speculative investment, meet existing policies and regulations, and discourage intra-county business relocation, are also factors that are considered (Montgomery County, 2012).

An example of a successful project funded through this program is the Dayton Dragons minor league baseball team project. The fund helped local partners purchase a Class A minor league team and build a 10,000-seat stadium in Downtown Dayton. The team’s inaugural season set a minor league record for attendance (Montgomery County, 2012) in 2000.

The **GE Fund** is not aimed at specific projects, but rather is focused on distributing money equitably across jurisdictions based on growth that occurred within the county. The goal is
for the ED Fund to help spur economic development to sustain the eventual growth of the GE Fund. All jurisdictions in Montgomery County make annual contributions into the GE fund based on “a single countywide growth contribution formula” and receive annual distributions resulting from a formula based on population (Montgomery County, 2012).

The combined effect of the two formulas results in “net distributions for declining, stable or slow growth jurisdictions and net contributions for fast growth jurisdictions.” The money that funds this program comes from a 1992 sales tax increase in the county of 0.5 percent, 70 percent of which was specifically earmarked for the ED/GE program. The result was approximately $5 million available in the ED grant and $627,000 in GE funds (BBC Research and Consulting, 2001) in 2000.

Although the ED/GE program has been fairly successful, it is important to note the reasons that make its situation unique. The program was largely used as an economic development tool, as certain struggling parts of the county were having a negative economic effect on the county as a whole (BBC Research and Consulting, 2001). Due to the struggling nature of the county at large, including the central city of Dayton, the political feasibility and willingness of jurisdictions to support the program was much higher than it likely may have been in a region with larger inequities. In addition, the relatively moderate six percent sales tax that existed previously made it more politically feasible to pass the initiative that added 0.5 percent to the sales tax than may have been the case if the region already had a high sales tax rate or lacked a sales tax to begin with.

**Monroe County, New York**

Sales tax sharing in Monroe County, New York, was designed to serve the same purpose as the ED/GE program in Montgomery County, Ohio, discussed above: to reduce fiscal disparities between jurisdictions in the county. However, in this example, the structure of the program is different.

Monroe County has long had a local sales tax that was distributed proportionally by the County. The Morin-Ryan Act of 1985 altered the sales tax to give the county’s central city of Rochester a larger portion of the revenue. This change was made to address a service and education need within the city (Office of Policy and Management, 2010). As a result of this change, towns and villages in the rest of the county pushed for a sales tax increase to gain revenue. Another change was made to help provide more funds to surrounding towns. The result is a rather complicated equation of tax distribution: 90.75 percent of the total four percent tax is split evenly between the City and County, while the remainder is distributed by service and population.

The Monroe County example illustrates some of the political difficulties and complications that may arise when municipalities share revenues. Rather than distribution based on a needs-based formula, the distribution emerges as the product of a legislative process. Furthermore, it may best apply to areas where the central city is struggling, but is surrounded by wealthier, independent suburban municipalities.
Allegheny County Regional Asset District, Pennsylvania
The Allegheny County Regional Asset District in Pennsylvania is slightly different than the two previous examples with regard to its intent. This district was created as an economic development tool rather than as a way to reduce fiscal disparities. However, due to a component of the program, where a portion of revenues are weighted slightly towards poorer communities, it is relevant to our discussion (BBC Research and Consulting, 2001).

The program is funded by a one percent county sales tax, half of which is spent to serve regional assets such as the Pittsburgh Zoo and the Carnegie Library. A quarter of the revenue goes directly to County use, while another quarter goes to municipalities. The 25 percent that is given to municipalities is distributed based on a formula that evaluates need. A unique attribute of the program is that the revenue is not used to add services, but rather to provide tax relief for residents in struggling municipalities to encourage spending and growth (BBC Research and Consulting, 2001).

Perhaps most noteworthy about this sales tax sharing example is the formula used to determine how to divide the revenue. A ratio of a municipality’s per capita property value, compared to the county per capita property value, is used to identify areas in need. The model, however, caters to a more conservative political base than many of the other models studied, since the revenue generated is used as tax relief rather than to pay for needed services in lagging communities. The flexibility provided to local municipalities to reduce any local tax they would like, however, helps simulate a “service provision” effect since the funds could help pay for services by replacing a tax directly aimed at paying for a local service.

Comparison of Examples
The largest differences between these three examples are the payout schemes. Much of this has to do with political feasibility locally. In the Montgomery County example, the ED/GE Fund receives varying amounts of funds from each municipality based on wealth, and redistributes them equally. In the Allegheny County model, equal amounts of money based on population are collected from the county and then distributed based on need. They provide the same type of impact--a leveling of fiscal disparities--but each use a different approach that was more politically aligned with their constituents (Allegheny Regional Asset District, 2013).

B. Shared Property Tax
A number of jurisdictions have implemented property tax sharing programs. The following section looks at two of these programs that have resulted in dramatically different regional outcomes.

Hackensack Meadowlands, New Jersey
The Hackensack Meadowlands property tax sharing program was implemented in 1972 to reduce the fiscal disparities created by regional land use decisions. The New Jersey Meadowlands Commission, the regional government of the area, adopted the Hackensack Meadowlands Master Plan in 1972. The Master Plan created a new regional approach to
zoning and land use planning for the fourteen municipalities and two counties within the region. Under this regional approach to land use planning, certain municipalities saw a significant portion of their developable land zoned for open space, limiting their development potential. To balance the fiscal disparities caused by the Master Plan, legislators created a property tax sharing program for the region.

The tax sharing program only affects property taxes on properties built after 1970. According to the program, 60% of property tax revenue from properties built after 1970 is guaranteed to the municipality in which the revenue originated. The remaining 40% goes into a regional pool and is redistributed based on the number of school children and the municipality’s percentage of total property within the Meadowlands.

The formula for sharing the revenues involves two factors. The first is the number of school children that live within the Meadowlands regional boundaries within the jurisdiction. The second factor is the municipality’s percentage of total property within the Meadowlands region. There is also an adjustment factor that limits the amount a municipality pays or receives to be within five percent of the previous year’s amount. This allows municipalities to have a greater level of certainty over their tax revenue streams. In 2013, over $7.5 million was collected for the property tax sharing pool (New Jersey Meadowlands Commission, 2013).

Many municipalities within the Meadowlands region were initially opposed to the regional Master Plan adopted in 1972. However, once the property tax sharing program was enacted, most of the opposition to the plan had ceased. By all accounts, the Hackensack Meadowlands property tax sharing program has successfully met its goals for over 40 years. This tax-base sharing program allowed the area to pursue regional planning goals without inordinately harming particular municipalities. Over the years the program has remained largely unchanged, with only a few minor alterations to the allocation formula, and it provides a successful blueprint for a property tax sharing program.

Moses Lake and Grant County, Washington
In 2001, the city of Moses Lake and Grant County entered into a 20-year property tax sharing agreement. The program was initiated to compensate the County for unincorporated areas annexed by Moses Lake. Under the program, Moses Lake shares a portion of its newly acquired property tax revenues with the County for a period of six years. This gives the county time to adjust to lower tax revenues. Other provisions of the agreement relate to shared funding of capital improvement projects in the newly annexed lands.

This tax sharing program operated smoothly for its first several years, but it has led to a number of acrimonious disputes in recent years. In 2007, Moses Lake sued the County over the funding of a road in a newly annexed area. After three years of costly litigation, the City and the County reached a settlement in 2010, requiring Moses Lake to pay $1.7 million to Grant County (Probert, 2013). Shortly after the settlement, one of Moses Lake’s largest companies, REC Silicon, saw its property value drop by nearly $500 million, significantly reducing Moses Lake’s property tax revenues. The city is currently refusing to meet the terms
of the settlement it agreed to. To date, this dispute is ongoing and costing Moses Lake and Grant County a great deal of time and money in court appearances and legal fees.

Ultimately, Moses Lake and Grant County provide a cautionary tale. If tax sharing is not effectively implemented, it has the potential to cause long-standing acrimony and financial losses in an area instead of benefitting it. While the situation of these two jurisdictions is not similar to the situation in the Portland metropolitan region, there are still applicable lessons. First, it is important for all the parties involved in the tax sharing arrangement to fully understand and agree on all the provisions of the program. Moses Lake and Grant County held different interpretations of certain provisions of their agreement which led to the initial lawsuit. Furthermore, it is important to anticipate adverse situations such as a major drop in tax revenues, and to have contingency plans in place.

C. Shared Commercial/Industrial Tax: Minnesota Fiscal Disparities Act Case Study

The Minnesota Fiscal Disparities Act (MFDA) is important both because it is recognized as the most comprehensive tax-base sharing strategy in the nation and due to similarities between the regional policy-making bodies of Minneapolis-St. Paul and Portland. To understand how the MFDA might be applicable to Portland, this case study will cover the unique history and political situation under which the Act came about. It will also evaluate successes and failures of the Act and what lessons Portland can take away from those experiences.

Historical Context

The Minnesota Fiscal Disparities Act of 1971 was the centerpiece of multiple property tax reforms that were enacted in Minnesota in the early 1970s, collectively called the “Minnesota Miracle.” These reforms arose as a response to concerns about soaring property taxes, tax base and tax rate disparities, heavy competition between jurisdictions for commercial-industrial tax base and disparities in local public services such as education.

The Twin Cities region experienced significant growth after the Second World War, prior to which the city limits of Minneapolis and St. Paul contained most of the area’s population. As the region expanded and mobility increased due to investments in auto infrastructure, it became increasingly common for people to shop in one jurisdiction, work in another and live in still another.

This regional growth created competition between jurisdictions for tax base and for sales tax revenue. While some of this competition could be positive, spurring commercial and industrial growth, it also prevented parks from being established, created inequities in education, a shortage of affordable housing, and generally allowed areas to be developed to the benefit of one jurisdiction and to the detriment of another (Committee on Fiscal Disparities, 1969). As some jurisdictions began to see massive economic growth while others floundered, a sense of fiscal crisis emerged.
During the 1960s, the Twin Cities region tried to cope with its new fiscal reality through annexation. The strategy was abandoned, however, after a bitter annexation battle in the 1960s between the cities of Bloomington and Burnsville, in which Bloomington attempted to grab the Blackdog power plant and its consequent tax base (Burnsville v. Bloomington, 1962). Tax-base sharing was then proposed as an alternative to annexation and consolidation of local governments (Orfield and Wallace, 2007).

In 1995, there was a proposal to expand the MFDA by incorporating the growth in residential development of homes valued at $200,000 and over. This proposal was passed by Minnesota’s House and Senate but was vetoed by the governor. Thus, even with these small adjustments to funding source and tax-base pool money distribution for large projects, the formula for capturing tax base and sharing the pooled money has remained the same.

**Political Strategy**

The basic concept of the Minnesota Fiscal Disparities Act came from the Minnesota Citizens League, a group founded in 1952 that brings together citizens and community leaders for the purpose of devising solutions to policy issues. The Citizens League published a report in 1969 titled “Breaking the Tyranny of the Local Property Tax,” in which they drew attention to the problem of “fiscal fragmentation,” which they claimed “discouraged intergovernmental cooperation.” They proposed tax-base sharing as a way to maintain the autonomy of local jurisdictions while allowing for some degree of fiscal cooperation (Committee on Fiscal Disparities, 1969).

The tax-base sharing strategy represented a tacit acknowledgement that the existing systems of fractured local government in the Twin Cities were unlikely to change in the foreseeable future. Despite the political advantage of a solution that maintained the status quo governing structure, there was substantial bipartisan opposition to the plan. Jurisdictions split along the lines of those who stood to benefit from the plan and those who would see a percentage of their revenue get siphoned off (Orfield and Wallace, 2007).

The bill was labeled ‘metropolitan socialism’ by legislators who feared it would unfairly hand out “hard-earned” wealth to weaker communities, while simultaneously discouraging those communities from working for industrial development. Others viewed it as a “share the wealth” bill that would reduce the borrowing power of communities (Orfield and Wallace, 2007). Although the bill only impacted the Minneapolis-St. Paul region, its passage in the legislature depended on the votes of legislators outside of the area for whom it symbolized a vote in support of regionalism, generally a contentious issue.

In the end, a coalition of central cities, declining inner ring suburbs, low tax-base-developing suburbs, and grassroots community groups came together to oppose wealthy suburban representatives (Orfield, 1997). The bill barely passed the Senate, receiving exactly the 34 votes that it needed (Orfield and Wallace, 2007). Citizen participation and unexpected partnerships were fundamental to the passage of the MFDA. From its germination in the work of the Minnesota Citizen’s League to its passage by a creative coalition, engaged citizens played a central role.
Implications for Metropolitan Portland

The historical context and political strategies produced an optimal moment for the passage of MFDA. Metropolitan Portland shares some of the advantages that helped create that moment. Like the Twin Cities, it has a strong base of engaged citizens who have helped enact major public policy change (e.g. Coalition for a Livable Future, 1000 Friends of Oregon). While the political climate of Portland in 2013 is unlike the more radical liberalism awash in Minnesota in the late 1960s, the historical context has surprising parallels. In Minnesota, regional growth after the Second World War led to a new growth management discourse as jurisdictions found themselves competing for residents and tax-generating land uses. Today in metropolitan Portland, and around the country, problems like climate change, disaster preparedness, and equity concerns are prompting a new growth management discourse similarly focused on the regional scale.

There are also some notable differences. The MFDA rode a wave of momentum from other dramatic tax reforms happening as part of the “Minnesota Miracle,” creating political energy at the state level for trying out controversial strategies like tax-base sharing. Even with this energy the MDFA barely passed. Moreover, a clear sense of fiscal crises drove powerful political support to the bill. It is unlikely that the Portland politicians, or those in Minnesota, feel the same sense of urgency around today’s regional issues like climate change and equity, or even with respect to differences in local fiscal capacity.

Purpose and Goals of the Minnesota Fiscal Disparities Act

According to Hinze and Baker (2005), in the current day the program is focused around a broad set of goals: to promote orderly regional development, create equity in the distribution of fiscal resources, help communities in different stages of development and encourage protection of the environment by reducing fiscal constraints. The purpose remains unchanged since 1971. Note that the framing is focused on shared regional goals rather than overtly redistributive goals. If communities in the Metro region were to consider a similar strategy, they should carefully consider their framing of the issue.

The original purpose from the Act is:

1. to provide a way for local governments to share in the resources generated by the growth of the area, without removing any resources which local governments already have;
2. to increase the likelihood of orderly urban development by reducing the impact of fiscal considerations on the location of business and residential growth and of highways, transit facilities and airports;
3. to establish incentives for all parts of the area to work for the growth of the area as a whole;
4. to provide a way whereby the area’s resources can be made available within and through the existing system of local governments and local decision making;
5. to help communities in different stages of development by making resources increasingly available to communities at those early stages of development and redevelopment when financial pressures on them are the greatest; and
6. to encourage protection of the environment by reducing the impact of fiscal considerations so that flood plains can be protected and land for parks and open space can be preserved.

(Charles R. Weaver Metropolitan Revenue Distribution Act, 1992)

How the Minnesota Fiscal Disparity Act Works
The underlying concept guiding MFDA is a redistribution of the commercial/industrial tax base. The seven counties included in program must contribute 40 percent of the growth in value of their respective commercial/industrial property tax base to a shared tax base. Even though the law was not implemented until 1975, the year of its passage, 1971, functions as the assessment year. The commercial/industrial property tax base includes not only structures like businesses and stores, but also vacant industrial land and public utility properties (Hinze and Baker, 2005).

The first step to calculating what each jurisdiction contributes and what it receives is figuring out the fiscal capacity for each jurisdiction, basically its ability to fund important services. This measurement of fiscal capacity is used to create a distribution index, which for a given jurisdiction is calculated by multiplying its population and its relative fiscal capacity. If a jurisdiction has the same fiscal capacity as the regional average, its share of the tax base is equal to its population as a percentage of the region’s total population. If it has less fiscal capacity than the region as a whole, it gets more back, and likewise, it gets less back if it has more fiscal capacity than the region as a whole. Note that there are no additional indicators of actual financial need in this formula except for the inclusion of population (Hinze and Baker, 2005).

The calculations become more complex when determining local tax levies for each jurisdiction, or in other words, how much is needed to fund local services. In the MFDA, tax-base sharing is determined before the levying of local taxes. Each jurisdiction still receives whatever local tax it has decided to levy. A jurisdiction can either be a net-contributor (meaning it has a high fiscal capacity and therefore gets back less than it puts into the shared tax base) or a net-recipient (a jurisdiction that has a low fiscal capacity and therefore get back more than it puts into the shared tax base). Properties in a jurisdiction that is a net-contributor end up paying more in taxes because they aren’t getting as much back, whereas properties in a jurisdiction that is a net-receiver end up paying less in taxes because of what they get back. In other words, property owners in high performing jurisdictions end up paying more than the local levy (Hinze and Baker, 2005).

Interestingly, a study analyzing the effects of removing the disparities program found that its removal would in fact increase overall tax rates (Hinze and Baker, 2005). The primary reason for this has to do with Tax Increment Financing (TIF) rules. Without the fiscal
disparities program, TIF would receive a larger share of the tax pool. Due to the fact that TIF tax revenues cannot be used to fund a local levy (fiscal disparities can be used for local levy funding), property owners would end up having to pay more in taxes in order to cover the cost of the local levy.

**Growth Since 1970**

of the Twin Cities metropolitan area is approximately 2.85 million people, representing a one-million-person (35 percent) increase since 1970. Hennepin and Ramsey counties remain the most populous, but have exhibited the lowest growth rates since the passing of the MFDA (Figure 1). Herland’s (2012) study found that despite this population growth, there was a ten percent population decline in the central cities of Minneapolis and St. Paul as compared to a 350 percent population increase in developing areas.

**Figure 1: Population Growth by County, 1970-2010**

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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Anoka</td>
<td>154,815</td>
<td>331,022</td>
<td>113.8%</td>
</tr>
<tr>
<td>Carver</td>
<td>27,652</td>
<td>91,042</td>
<td>229.2%</td>
</tr>
<tr>
<td>Dakota</td>
<td>139,824</td>
<td>397,405</td>
<td>184.2%</td>
</tr>
<tr>
<td>Hennepin</td>
<td>962,393</td>
<td>1,155,495</td>
<td>20.1%</td>
</tr>
<tr>
<td>Ramsey</td>
<td>473,822</td>
<td>505,795</td>
<td>6.7%</td>
</tr>
<tr>
<td>Scott</td>
<td>32,423</td>
<td>129,928</td>
<td>300.7%</td>
</tr>
<tr>
<td>Washington</td>
<td>79,980</td>
<td>237,733</td>
<td>197.2%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,870,909</strong></td>
<td><strong>2,848,420</strong></td>
<td><strong>52.2%</strong></td>
</tr>
</tbody>
</table>

Similarly, all areas added jobs since 1970, but the central cities experienced the lowest growth rate (4.9 percent) and developing areas the highest growth rate (779.2 percent). Though Hennepin and Ramsey counties continue to have the highest number of jobs, their regional share has declined substantially as employment in suburban counties has grown substantially.

**Implications for the Metro Region**

These data suggest that there may in fact be less competition occurring between the different jurisdictions, as the MFDA intended (Herland, 2012). Interestingly, neither the Herland (2012) nor the Hinze and Baker (2005) studies recognized suburbanization as a potential unintended consequence. It seems that it would be important to ensure that growth in developing and rural areas was managed thoughtfully so that excessive sprawl does not occur.
Understanding what type of growth is occurring in a particular region is important in order to pick the right type of tax-base sharing strategy. For example, a property tax strategy will do poorly in an area losing population. For the MFDA, a commercial/industrial strategy made sense because the region was adding population and industry.

**Benefits and Challenges of the Minnesota Fiscal Disparities Act**

Several studies have been conducted to evaluate the positive and negative outcomes of the MFDA (Hinze and Baker, 2005; Luce, 1997; Herland, 2012). Luce (1997) focused on tangible outcomes, such as analyzing where increases in population and commercial/industrial developments were occurring to evaluate the true nature of ‘equity’ within the MFDA. In order to gauge the positive and negative impacts of the program, the Hinze and Baker (2005) and Herland (2012) studies ran simulations to estimate the type and severity of the effects of discontinuing the MFDA. According to both these studies, they took this approach because there have been so many land use decisions made within the context of the MFDA that it is unrealistic to estimate how development might have progressed without the program.

**Benefits**

Orfield and Wallace (2007) emphasize that among the primary benefits of the MFDA are lower taxes for everyone, a flexible system addressing varying needs simultaneously, and a balance of local autonomy with regional interests. Property taxes would increase overall if the MFDA were not in place, and these increases would disproportionately affect areas that are currently net recipients under the MFDA (Hinze and Baker, 2005; Herland, 2012). Hinze and Baker (2005) describe the rise in tax on homesteads that would be experienced. Current net-contributors would only experience a 0.3 percent increase, while current net-recipient would see their taxes raised by up to ten percent. Herland (2012) analyze this same effect by regional development classification and find the same results: currently developed areas would see the largest decrease in taxes (1.4 percent) as compared to rural growth centers that would experience a large tax increase (10.5 percent).

Another asset of the MFDA is that there can be ongoing improvements to the tax system to make the program more effective. In 2001, Minnesota underwent an overhaul of its property tax system. Under this reform, there was a realignment of state and local fiscal relations and class rate compression. The realignment of state-local fiscal relations included the use of state funding rather than property taxes to fund the operation costs for basic school expenses and the metro transportation system. Class rate compression refers to a narrowing in the difference in property taxes based on land use type, or “class.” Before the reform, commercial/industrial (C/I) and recreational land uses were the most heavily taxed, which was discouraging development of this sort, thus, working counter to the MFDA’s objectives (Hinze and Baker, 2005).

Additionally, the property tax reform instituted a new state property tax and made some changes to the state aid programs. A new property tax garnered additional money from C/I
and recreational land uses to offset the lost tax income from class compression. Overall, this new tax accounts for only one-third of the total tax burden on C/I and recreational land uses. In terms of state aid, Minnesota made its Homestead and Agricultural Credit Aid (HACA) unavailable except at the county level. The state viewed HACA as a program that was not geographically targeted enough, as it doesn’t consider local service needs or the local tax-base’s ability to meet those needs. The goal was to encourage local towns and cities to choose between raising local levies or decreasing spending, though some funds were still available through targeted funds called local government aid (LGA). City suburbs tended to be net-losers of aid under this reform, whereas large nonmetropolitan cities were net-gainers (Hinze and Baker, 2005).

The process of the 2001 tax reform demonstrated this potential for flexibility. Legislators identified unintended consequences of the MFDA (e.g. decreasing investment in C/I developments due to the notably high property tax rate) and adjusted the program accordingly (via class rate compression). Small adjustments have also been made as large developments have occurred. For example, in 1986, the Mall of America Surcharge provided supplemental money from the MFDA shared tax-base pool to the City of Bloomington between 1988 and 1999 to finance the Metropolitan Stadium site that is, today, the Mall of America. Bloomington will repay these additional funds into the shared pool between 2006 and 2015 at approximately $5 million per year. This sort of flexibility is an asset because it signifies that the program can respond to fluctuations in the local economic, political, and land use systems.

The MFDA also serves in supporting areas of the region where a once-prominent industry has declined and new development has yet to occur (e.g. meatpacking in South St. Paul) as well as towns that support fundamental infrastructure, like natural gas pipelines in Andover, an MFDA net recipient (Luce, 1997; Peterson, Humphrey, and Blake, 2012). The concept of balancing local autonomy and regional concerns as it is related to a tax-base sharing program, means creating an environment in which local jurisdictions within a region do not need to compete for land uses that bring in a larger tax base. Conceptually, Hinze and Baker (2005) and Herland (2012) reiterate this point in their examinations of the MFDA, though no quantitative analysis was conducted to evaluate the development of low tax income uses such as parks and open space. Rather, the studies refer to regional services as being a value expressed through discussions with communities.

**Challenges**

Criticism of the MFDA is largely centered on a lack of program evaluation and assessment. This criticism is typically expressed by net-contributor area residents who believe that they are providing a “lavish” subsidy to small towns that would not otherwise exist (Peterson, Humphrey, and Blake, 2012). Most of these residents take issue with the formula for assessing the tax base and distributing shared funds, rather than the program itself. Other concerns include the exemption for the Minneapolis-St. Paul International Airport and whether the program should be subject to a political process.
With regard to the formula, there are four main critiques: no adjustment for assessment levels, the 1971 base value, a lack of a needs-based component, and an absence of transparency or tracking of funds. First, assessment level is the difference between what the assessor estimates is the market value of the property and the actual market value. Since the extent to which a jurisdiction contributes to the MFDA shared funds pool is directly related to the assessors’ estimated market values, these estimates are typically equalized, or adjusted, for differences in assessment levels. However, the MFDA does not do this, which encourages assessors not to raise assessment levels to keep the jurisdiction’s contribution to the pool lower. While this is certainly a legitimate concern, instituting an adjustment also poses several administrative problems, including picking a methodology (each of which exhibits some internal flaws), deciding how to adjust 1971 values, and which sales ratio to choose (Hinze and Baker, 2005; Herland, 2012).

Second, some feel the 1971 base value acts as an unfair exemption that benefits areas that experienced growth prior to 1971, but puts those bringing in new business at a disadvantage. While this was part of a compromise at the time of passing the legislation, some question whether it is still necessary or if it represents a flaw in the formula by including inflation and growth (Hinze and Baker, 2005; Herland, 2012). Third, many residents and studies argued that there should be a needs-based component in the formula. This concern is based on the fact that certain types of land uses represent affluent communities (specifically, high-end residential) but are net-recipients under the MFDA because that land use is not commercial/industrial.

For example, the Bloomington Mayor Gene Winstead criticized Prior Lake for having “a number of homes in that super upper echelon, more than our city does. Yet they’re a recipient of this? And to what degree have they done a good job working to attract and get the commercial/industrial base?” (Peterson, Humphrey, and Blake, 2012). The other side of this issue is that net-contributors believe that some of net recipients don’t need all the money they are given. They argue that there needs to be an assessment of what services each jurisdiction is providing. This would differentiate between a net recipient that has a homogenous, middle class population versus one that has a diverse, low-income population (Hinze and Baker, 2005; Peterson, Humphrey, and Blake, 2012; Herland, 2012).

Fourth, though not called out explicitly, there seems to be a call for increased transparency and a tracking of funds. The MFDA does not track shared-fund allocations to determine how these funds are being spent by each jurisdiction. These sorts of concerns are communicated through questions, such as: “Is the $4 million in property value that a suburb gratefully accepts each year keeping cops on the street -- or keeping a little-used golf course afloat?” (Peterson, Humphrey, and Blake, 2012). Net-contributors are not necessarily opposed to the fact that they’re helping fund other areas in the region, they just want to know that it really is making a difference. As one net-recipient jurisdiction resident put it, “I don’t really know if [the program is] helping the region or not. I know it’s helping in Andover, but I don’t know how they’re using it” (Peterson, Humphrey, and Blake, 2012). Thus this absence of tracking and transparency contributes to greater skepticism about the MFDA and its utility overall.
The other two common critiques of the MFDA are the exemption for the Minneapolis-St. Paul International Airport and whether the program should be subject to a political process. While the airport is taxed through several different avenues (the Metropolitan Airport Commission, Hennepin County, and other special districts), it is exempt as a commercial/industrial use from contributing to the MFDA shared pool. This represents almost $2 million being withheld from the fund. However, the airport is an exceptional case because it does not pay school district or municipal taxes and, because it has no population, would receive no money back from the pool unless more airport-specific rules were established (Hinze and Baker, 2005; Herland, 2012).

Lastly, the MFDA is not subject to any political process. On one hand, proponents believe that this contributes to regional faith in the stability and longevity of the program. However, this concern is foundational to all of the other criticisms, because without the program being subject to a political process, there is no inherent structure for assessment and reevaluation of the program’s formulas and design. Many believe that the MFDA is likely to stay around, but also advocate that it be assessed and modified if necessary based on changes that occur within the region over time, including expansion of the program to incorporate more jurisdictions, modification of the formula, and the reassessment of MFDA exemptions (Dornfeld, 2011; Hinze and Baker, 2005; Peterson, Humphrey, and Blake, 2012; Herland, 2012).

Current Conditions

The Minnesota Fiscal Disparities Act has been in place for over 40 years providing us with the chance to study its effectiveness over time. While there is a general consensus among scholarly reviews that the MFDA is successful in reducing fiscal disparity and decreasing competition for commercial/industrial (C/I) development (as indicated by disproportionate development in one jurisdiction as compared to others), there is a recognition of measures that could be taken to further improve the program to make it more equitable (Hinze and Baker, 2005; Luce, 1997; Orfield and Wallace, 2007).

Residents (in particular those who reside in net-contributor jurisdictions) express similar concerns with the MFDA, specifically that it lacks transparency and does not address the variation in jurisdictional need. Since money jurisdictions receive from the MFDA pool is not tracked, it leaves residents of net-contributor jurisdictions wondering whether they are supporting vital services or luxury amenities. There is also a concern that creating the shared pool solely based on C/I growth can lead to “Robin Hood in reverse” in which affluent areas invest in developing nice homes for affluent residents but minimize investment in C/I development so that they end up being net-recipients under the current MFDA formula (Dornfeld, 2011; Peterson, Humphrey, and Blake, 2012).

Scholars agree that amendments need to be made to the MFDA so that the formula for collection clearly reflects affluence and the formula for distribution is more responsive to a municipality’s need based on aging infrastructure or disproportionate levels of impoverished, minority, young and old populations (Hinze and Baker, 2005; Luce, 1997; Orfield and Wallace, 2007; Peterson, Humphrey, and Blake, 2012; Herland, 2012).
Implications for the Metro Region

The Twin Cities garnered the political support to pass and implement MFDA during the 1960s and 1970s. This time period is representative of when most tax-base sharing programs detailed in the earlier section of this study were enacted. It remains to be seen whether Portland retains that amount of political support today. The relationship between core urban areas and their surrounding towns, suburbs, exurbs, and agricultural lands has certainly shifted since the 1970s. It would be remiss to not explore how those shifts will play out in tax-base sharing strategies proposed today.

It seems clear that the Twin Cities region is better off with this program than without it. However, without an embedded evaluation system it is challenging to identify the success in achieving the original six objectives of the program. For example, did the MFDA preserve open space? How might we measure this? Such an evaluation system would have also built long term public trust in the program. Moreover, even though equity was not explicitly one of the objectives, it would be useful to understand the equity effects of the MFDA, especially, when trying to replicate the model elsewhere.

Other Strategies

Tax-base sharing is only one strategy for redistributing regional advantage. Metro may find that other strategies are more politically compelling or a better fit for Portland. It may even be appropriate to use a mixed strategy. The rest of this study will examine two other methods of redistribution: shared regional services and city-county consolidation.

A. Shared Regional Services

Beyond forms of tax-base sharing, there exists an additional strategy for fiscal cooperation: regional service sharing. Sharing services provides an opportunity for financially-strapped municipalities to cut the costs of providing basic public services such as police and fire protection, transportation, planning and economic development, public works, parks and recreation, libraries, and select facilities and administrative services. This list represents a selection of some of the most common services provided on a regional basis in recent years: services generally deemed capital-intensive. By cooperating on service provision, regions can eliminate duplicative efforts and thereby increase and improve local government efficiency. Additionally, funds saved by a municipality through providing certain services in collaboration with one or more of its neighbors can be directed toward services that may be lacking and could use additional financial support to become more effective.

In the U.S., local governments typically have the ability to engage in service sharing through a variety of means including municipal consolidation, mergers, and annexation. Perhaps the most common enabler of regional service provision is simply a shared services agreement between municipalities (Costello, 2013). Contrary to consolidation, merging, or annexation, a shared services agreement between two or more municipalities allows each to remain independent. The following cases provide examples of service sharing across municipalities in the U.S.
Public Safety Sharing: State of New York
Among the most common yet controversial types of regional service sharing in the U.S. is inter-municipal public safety. Quite often when municipalities sign a shared services agreement for police protection, members of those communities fear that there will be a reduction in service (e.g., less police officers on patrol) that may result in an increase in crime. However, many municipalities engaged in shared public safety services are able to show that the level of service has remained static since a shared service agreement has gone into effect—or in some cases, has improved—all while saving taxpayers money (DiNapoli, 2009).

The latter has been true for the Town of Lancaster, New York, which signed a shared service agreement to provide a joint public safety effort with a neighboring municipality, the Village of Lancaster, in the 1990s. The Village, experiencing substantial population decline, a shrinking tax base, and rising pension and other personnel costs, was eager to consolidate its police department with that of the Town. The increased efficiency that resulted from the consolidation of the two municipalities’ public safety organizations increased the level of service for both the Town and the Village of Lancaster, and it is currently estimated that their agreement has saved their respective citizens up to $750,000 per year since 2010. (DiNapoli, 2009).

In an additional example of the benefits of shared public safety services from New York State, the Town of Clay consolidated its police department with the Onondaga County Sheriff’s Department. This action, without negatively impacting service levels in the Town of Clay, will collectively save the Town and the County an estimated $16 million during the decade 2009-2019 (DiNapoli, 2009).

Cooperative Purchasing: Pennsylvania
While public safety services like police and fire protection tend to be among the most common types of services shared by municipalities today, many other types of services have been increasingly shared in recent years. Among them is the cooperation by local school districts on a variety of services from transportation provision to food service to textbook, office supplies, and technology purchasing.

In 2008, the Commonwealth of Pennsylvania Department of Education’s Common Cents Shared Services Initiative estimated that the School District of Pittsburgh had the potential to save up to $1.32 million annually (in 2008 dollars) by cooperating with other school districts from within the Pittsburgh region, within Pennsylvania, or even out-of-state, on these types of services and purchases, as well as other expenditures (Pennsylvania Department of Education, 2008). In total, the Common Cents Initiative projected a potential savings of $14.4 million for 49 school districts participating in the program statewide that year (Eggers, 2011). Cooperative purchasing, in particular, shows promise for increasing school districts’ fiscal capacity considering that in 2011, approximately forty cents of every dollar spent on education in the U.S. was used for non-instructional purposes (Eggers, 2011).
It should be noted that while Common Cents has actively promoted cooperative purchasing over the last several years and has demonstrated ways that many of its 49 participating school districts could substantially cut costs, many of its participating schools have not taken advantage of the full gamut of cooperative purchasing options presented by the program. Therefore, this example from Pennsylvania remains largely untested, but regardless serves worthy of an alternative to be considered for school districts and other local government entities in the Portland metro region as a means for sharing fiscal capacity.

**Administrative/Management Services Sharing: Ohio**

A number of case studies from various regions in the State of Ohio have shown that local government entities may greatly reduce annual expenditures by sharing administrative personnel. In the Youngstown-Warren region of the state, it was estimated by the Regional Chamber of Commerce that three Ohio counties could save upward of $36 million annually by moving certain school district administrative personnel to the county level (Ohio Office of Budget and Management, 2012). This proposal has not yet been implemented in the Youngstown-Warren region, however it provides a simple alternative for increasing the fiscal capacity of local governments by consolidating two or more administrative or management positions across jurisdictions.

An additional example from Ohio of administrative or management sharing, one which has been recently implemented, involves Reading City Schools and Three Rivers Local School District in Hamilton County. Each of these school districts reported an annual savings of between $55,000 and $66,000 in 2012 by sharing the services of a school district treasurer (Ohio Office of Budget and Management, 2012).

**Challenges to Implementing Shared Service Agreements**

Despite the recognized benefits of regional service sharing, namely the potential for saving revenue and increasing efficiencies, hesitation sometimes remains by municipal leadership and the public at large as there is often a lack of desire within the community to change the status quo. Among the largest barriers to moving forward on a shared service agreement with another municipality, however, is the inability to get the “ball rolling” in the first place--quite often, small municipalities are in such dire fiscal straits that no funds exist to even strategize and plan for a collaboration in service provision, nor have the funds to implement one (Costello, 2013).

**B. City-County Consolidation**

**City of Lexington and Fayette County, Kentucky**

The consolidation of the City of Lexington and Fayette County is a prime example of a city-county consolidation in the United States. At the time of the consolidation in 1974, the City of Lexington represented approximately half of Fayette County’s population of over 174,000. (Leland and Thurmaier, 2010). Prior to this time, Fayette County was experiencing rapid population growth, accompanied by high rates of new housing construction and other types of
development. Concurrently, the City of Lexington was quickly annexing nearby municipalities. Lexington was “spot annexing”: annexing only lands of higher value and leaving lesser-valued lands unannexed. As a result, Lexington grew in a haphazard pattern, leading to confusion over which areas were under City jurisdiction and which areas were not (Leland and Thurmaier, 2010).

The push for consolidation was not intended to enhance economic development, as tends to be the case for consolidation efforts. Instead, consolidation was seen as almost inevitable. In 1968, an independent research commission had recommended that Lexington annex all property that was currently developed in Fayette County. The other municipalities of Fayette County believed they had two options: consolidate the city and county and be guaranteed a certain level of services, or inevitably be annexed by Lexington and not be guaranteed services (Leland and Thurmaier, 2010).

The new consolidated city-county created a new tax system where residents were split into eight districts based on the number of services they required, subjecting each district to an appropriate tax rate. The goal was to alleviate concerns non-city residents had over property taxes. Prior to the consolidation, non-city residents owed 16.65 cents for every $100 of their properties’ assessed values. On the other hand, city residents paid 61.70 cents for every $100 (Shaw, 2010).

Post-consolidation, per capita expenditures increased considerably. In the six years leading up to consolidation, per capita expenditures had increased by 38 percent, compared to 42 percent in Jefferson County (a similar county). In the eleven years following consolidation, per capita expenditures increased by as much as 136 percent, compared to just 69 percent in Jefferson County. The large increase in per capita expenditures is likely the result of an increase in the level of service across Fayette County (Leland and Thurmaier, 2010).

An additional result of the city-county consolidation was less regional fragmentation. No longer was there confusion about how City of Lexington or Fayette County resources should most appropriately be allocated after services were consolidated (Shaw, 2010). Furthermore, there became a decreasing reliance on property tax and an increasing reliance on forms of income tax in order to raise additional revenues (Leland and Thurmaier, 2010).

There are a few lessons that can be learned from the consolidation of Lexington and Fayette County. The first is that consolidation can be politically difficult unless the non-city municipalities feel like annexation is inevitable. Consolidation can also lead to an increase in per-capita expenditures. Finally, consolidation can help to eliminate unnecessary service overlap.
Lessons Learned for the Metro Region

The following are a few takeaways from programs designed to decrease fiscal capacity differences and increase fiscal capacity locally:

Developing a Tax-Base Sharing Program

1. Framing is of the utmost importance. Minneapolis found that their message had to be crafted to show region-wide benefits rather than “share the wealth,” or “redistribution.”

2. All the places that used a sales tax to do tax-base sharing were places that already had a sales tax in place to begin with. This likely could not be repeated in Portland since there is currently no sales tax at all.

3. Whenever a new property tax is levied for tax-base sharing, it should only apply to properties built after the year the law went into effect to make the program more politically feasible.

4. Consider the role of the airport or other large commercial/industrial zone projects. Should they be part of the program? Justify these decisions to the public.

5. Limiting the length of the tax-base sharing agreement is one way to shore up political support in favor of the program. This way there is automatic review of the program after a given number of years and parties can opt out in the future. However, this weakens the overall effectiveness of the program because it decreases the certainty of revenue streams.

6. It is important for all the parties involved in the tax sharing arrangement to fully understand and agree on all the provisions of the program. If the agreement is unclear, it will lead to legal battles down the road.

7. It is important to anticipate adverse situations, such as a major drop in tax revenues, and to have contingency plans in place.

Increasing Effectiveness of Tax-Base Sharing

1. Configure other tax incentive programs to work with your fiscal capacity program.

2. Include more than just a tax on commercial and industrial properties; otherwise, wealthy bedroom communities do not have tax base included in the sharing agreement.

3. Transparency and tracking are important, both in garnering long-term public support and for understanding the effects of your program.
Takeaways from Outcomes of Tax-Base Sharing Programs

1. Tax-base sharing can help increase political support for regional planning.
2. There are not many examples of a program involving more than two jurisdictions. This speaks to the political difficulties of getting entire regions to work together to address fiscal capacity differences.
3. Tax-base sharing enables leveraging the wealth of the entire region to create a long term project that is a wealth generator, like the Mall of America.

Regional Service Sharing & Consolidation

1. Service sharing between municipalities can save money that would otherwise be spent on duplicative services.
2. Service sharing is the only method we found to decrease expenditures, as opposed to increasing revenue.
3. Conditions in regions that consolidate their city and county are very different than the conditions that exist in the Portland metro region. Consolidation here would likely not be politically feasible.
References:


**Works Consulted:**


Local Fiscal Capacity I: A Look Back

This section examines the history of fiscal capacity in the Portland metropolitan region to try to better understand the variation in revenue streams across the region’s municipal jurisdictions over time. Though on the surface it may appear that differences in fiscal capacity could simply be attributed to state tax laws or simple geographic variance, a closer look at some of the jurisdictions that comprise the Metro area reveal a deeper story of regional competition for development.

This scan reveals that the historic events and choices that individual jurisdictions have made contribute to their relative fiscal realities today. Through historic case studies of three different Portland metropolitan area jurisdictions--Cornelius, Gresham, and Lake Oswego--this analysis attempts to measure and evaluate the differences in fiscal capacity across the region, and provide some insights for the challenges of present day regional governance.
Background: Historic State Tax and Land Use Policies

In the state of Oregon, local jurisdictions rely on the property tax for their basic revenue for operations and governance (Orfield, 1998). Over the last 23 years, the state tax system has undergone significant changes that have affected local taxing districts and their ability to leverage revenues. Changes were first initiated by the passing of Measure 5 in 1990, followed by Measure 47 in 1996, and finally Measure 50 in 1997.

The extent of these changes impacted over 1,200 municipal jurisdictions (counties, cities, educations, and special service districts), causing a shift in how over 2.8 million individual properties were assessed and how taxes were collected (Multnomah County, 2011). Both Measures 5 and 47 were due to “citizen-led” initiative petitions, which were forwarded to the Oregon electorate, amending the constitution to limit the amount any one property could be taxed. Measure 50 was a legislative fix referred to Oregon voters after Measure 47 was deemed administratively “unworkable” by the Legislature.

Prior to Measure 5, Oregon had a levy-based property tax system, which was constitutionally capped at a 6 percent annual growth rate. Oregon’s levy-based property tax system allowed each taxing district to determine its own budget requirements. County assessors determined each taxing district’s property tax rate by dividing the total tax a district levied for that year by the total property value in the district. The sum of a taxing district’s rate was then multiplied by the real market value (RMV) of a property, in order to determine that property’s rate. RMV is the amount in cash that a property can reasonably be expected in exchange, if sold at the time of annual assessment by each county.

If a district’s total RMV decreased for any reason, the tax rate was increased by the amount needed to meet the budgeted expenses of that district. If a district’s total RMV increased, the tax rate was then decreased accordingly to meet budgeted expenses. In 1989, efforts were made to respond to recession era property tax shortfalls that were caused by a lack of administrative efficiencies to appropriately appraise and collect taxes at the county level. These inefficiencies resulted in budget cuts at both state and county levels, as well as rising frustration from the public. At this time, appeals to reduce property valuation were as high as 30 percent. By the end of the 1980s Oregon’s tax system was in dire need of reform (OR Department of Revenue, 2011).

Ballot Measure 5 passed in 1990, significantly altering Oregon’s property tax system forever. Measure 5 introduced limits on property taxes at $5 per $1,000 real market value going to schools and $10 per $1,000 real market value for general government operations. These tax limits created “compression,” a reduction in property tax collection when individual properties reached Measure 5 limits. Taxes are then levied proportionally in order to stay within the limits, prioritizing local taxes first, and then local bonds.

An important aspect of Measure 5 was to transfer responsibility for school funding from local governments to the state in order to “replace from the State’s general fund any revenue lost by
the public school system because of the limitations (Measure 5, 1990).” As Measure 5 limits were implemented across Oregon properties, it created a mix of levy and rate-based taxation. The result was that similar properties in the same area could be taxed at different rates. An additional effect also emerged in which some property owners bore a greater tax burden than others. Some owners’ taxes were reduced to nearly zero, while others made up this difference in order to meet the amount levied by any given jurisdiction (OR Department of Revenue, 2011).

In 1997 the passage of Measure 50 resulted in additional changes to Oregon’s property tax system. Measure 50 utilized a “cut and cap” strategy in order to stabilize property tax rates. Property values were cut back to 90 percent of 1995 assessed levels and were capped by limiting future increases in assessed value to 3 percent per year. Measure 50 also established permanent tax rates for jurisdictions (Oregon Department of Revenue). While Measures 50 was designed to provide stability and certainty to the system, it had a variety of unintended consequences. As a result of Measure 50, changes in the RMV of a property are not reflected in the property tax rate, which results in inequities in taxes paid for similar properties. The percentage that property owners pay in property taxes is a function of the extent to which actual home values have changed since 1995.

For example, in areas such as North and Northeast Portland where rapid property value appreciation has occurred in the intervening years, property owners pay a much smaller percentage in property taxes relative to the actual value of their homes. When Measure 50 passed, North and Northeast Portland were still suffering from the impacts of years of disinvestment, leading to low property values in the area. However, the increased desirability of the area has resulted in skyrocketing real market values. In areas where property values have remained relatively stagnant, such as East Portland, property owners pay a greater percentage in property taxes relative to actual home value. The system results in the perpetuation of existing disparities. Low tax rates in areas can serve as an impetus for development and may potentially fuel the gentrification process (Law, 2013, Portland Tribune).

Myron Orfield, in Portland Metropolitics (1998), examined the issue of fiscal capacity in the Portland metropolitan region and identifies the statewide planning goals and the existence of Metro as two of the greatest assets for the region to address regional polarization and growing fiscal capacity differences. These elements of the planning and governance structure in this region support the strategies and policy solutions set forth in Orfield’s recommendations for increasing fiscal capacity across regions. Relevant strategies include:

- Metropolitan structural reform
- Regional Affordable Housing
- Coordinating land use planning with infrastructure planning
- Transportation and Transit Reform

These strategies are to some degree addressed in the statewide planning goals and are implemented in part by Metro.
Key challenges Facing Oregon Cities

In Oregon, the fiscal constraints put on cities by compression limits in particular have serious consequences for cities’ ability to achieve balanced revenue streams. In addition, an economic climate punctuated by two recessions in the 1990s placed before cities an unprecedented challenge to provide core services. Historic trends indicate that there exists a balance point for citizens’ contributions to local government at 16 percent of personal income. However, growth of personal income in Oregon and the region slowed over time relative to the rest of the country. With falling relative incomes and no sales or income tax revenues to bolster the coffers, the heavy reliance on property taxes remains at the core of fiscal challenges for Oregon cities (ECONorthwest 2011).

Figure 2. Comparison of trends affecting cities in Oregon, 1995 – 2025

Case Studies

The cities in the region that are able to capture new residents and employment growth are the cities that will experience increased property tax growth, while those cities unable to do so will experience personnel costs that far outweigh any growth in personal tax revenue. Capital spending is also unable to keep pace with demand and, to varying degrees (depending on the jurisdiction) revenues are unable to keep pace with the cost of providing basic services. The following case studies of Cornelius, Gresham, and Lake Oswego highlight key issues and decisions since the enactment of Measures 5 and 50, which have shaped revenues and expenditures, while cities contend with changes in demographics and jurisdictional competition.
Cornelius

Located approximately 25 miles west of Portland and 10 miles east of the Coast Range, Cornelius is a bedroom community with deep agricultural roots. The history of Cornelius since the arrival of European settlers actually began near what is today North Plains, Oregon and the Cornelius family homesteads. The family settled the area in 1845 in an areas that was known as Free Orchards. With the coming of the railroad through the orchard in 1871, Ben Cornelius set up a warehouse, creamery, and sawmill next to the railroad depot. The impetus for the development of the town was Cornelius’ push to compete with Hillsboro and Forest Grove to become the county seat of Washington County. This led to the development of a settlement and the construction of a post office. The community was incorporated as Cornelius in 1893, and remained a small agricultural community on the outskirts of the Portland region for nearly a century (City of Cornelius, 2005).

Figure 3. Cornelius - trends in Race and Ethnicity Demographics 1990 to 2000 (source: Social Explorer)

<table>
<thead>
<tr>
<th></th>
<th>African American</th>
<th>Asian</th>
<th>Native American</th>
<th>Latino</th>
<th>White (non-Hispanic)</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0.29%</td>
<td>1.45%</td>
<td>1.14%</td>
<td>15.61%</td>
<td>87.09%</td>
</tr>
<tr>
<td>2000</td>
<td>0.76%</td>
<td>1.04%</td>
<td>0.28%</td>
<td>37.39%</td>
<td>58.20%</td>
</tr>
<tr>
<td>Percent change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1900–2000</td>
<td>162.07%</td>
<td>−28.28%</td>
<td>−75.44%</td>
<td>139.53%</td>
<td>−33.17%</td>
</tr>
</tbody>
</table>

Brief history. The character of the town began to change in the 1970’s from a predominantly agricultural community to a suburban community of Portland. What was a town of just under 2,000 residents in 1970 grew to more than 6,000 by 1990 (Figure 4). It was during the 1990s that identity of the town truly shifted in two significant ways. One was the growing tech and sporting goods cluster in neighboring Hillsboro and Beaverton. Workers began to eye Cornelius as a low cost housing alternative to the inflated prices in close proximity to the suburban office parks, and thus began the building boom of the 1990s (Interview Jones, 2013). The other shift concerned the racial and ethnic makeup of the city, as an influx of Latino residents moved into Cornelius due to the affordable housing relative to neighboring communities, and proximity to agricultural jobs in the rural Washington County (Interview Reynolds, 2013).

It was during the 1990s and into the new century that Cornelius began to feel the challenges of fiscal capacity. The challenges came in two forms: increasing demand on city services and decreasing revenues as a result of state law - limits on revenue collected through property taxes imposed by Measures 5 and 50 and restrictions on growth as a result of the statewide planning goals. The demand-side piece largely had to do with the influx of Latino and immigrant families during the 1990s. According to Reynolds, the larger than average family size in
addition to the lower incomes of many immigrant families has put a strain on city services. On the revenue collection side of things, like many Oregon cities, the tax revolt measures of the 1990s has made it difficult to maintain an adequate level of tax revenue to meet the cities service and infrastructure needs. Despite the tax limits, city officials indicate that the larger issue for fiscal capacity in Cornelius is the inability of the city to expand the UGB to attract revenue producing industrial development to larger industrial parcels. The building boom of the 1990s used up most available land for development (Interview Reynolds, 2013). However, the expansion of the UGB for additional development has been an uphill battle for the city. It is this limitation, in Reynolds’s eyes, that has posed the greatest challenge to fiscal capacity in Cornelius over the past 15 years.

**Figure 4.** Case study city population Growth, 1970 to 2000 (source: Social Explorer)

**Figure 5.** Historic owner-occupied units, 1980 to 2000 (source: Social Explorer)
Gresham

**Brief history.** The federal Donation Land Act of 1850 granted 320 acres of free land to white settlers wishing to homestead in the area that is now Gresham, 12 miles east of Portland in the shadow of Mt. Hood. Fertile farmlands grew into a thriving rural community. The City was incorporated in 1905. At one point Gresham was considered the “Raspberry Capital of the World,” processing and packaging at the Gresham Berry Growers Cannery. Agriculture, particularly berries, were the core industry from the 1920s to well into the 1960s. Berries have been such a centerpiece of Gresham’s agricultural and industrial history, that the City of Gresham included strawberries on the official city seal (pictured here).

In the 1970s, Gresham saw a massive boom in population as urban development began to fan out from Portland. This rapid growth (Figure 4) continued through 2000, reaching 90,205 people. In 1983 Multnomah County decided to focus its efforts on the provision of human services and public safety. The County adopted Resolution A, which officially transferred unincorporated areas of the County Portland and Gresham. By the mid-1990s formal annexations were complete. Gresham inherited what they considered shoddily built “sub-par” housing stock, which was largely multi-family (interview Papsdorf, 2013). Additionally, these areas were plagued with aging water and sewer systems, due to uneven development during the County’s tenure.

Prior to the enactment of Measure 5 limits, Gresham’s revenues were in step with population growth. During FY 1994-95 to FY 2001-02, the City of Gresham reports revenues growing along with population from $21 million to $30 million (2002). However, this growth was erratic year to year, in part due to the hard-hitting closure of the Fujitsu plant in early 2002. The City also attributes new demands from environmental regulations and growing state pension commitments, as well as Measures 5 and 50 property tax limits, for the growing difficulties in meeting local service needs (City of Gresham, 2002). Measure 50 also introduced a low 3.61 percent permanent rate in Gresham, which is constitutionally fixed and impossible to change.

As the fourth largest city in the state, Gresham presently lags behind its peers with one of the lowest permanent rates statewide (League of Cities, 2013). The combination of this low rate and Measure 5 limits create a low-revenue environment limiting options for the city to provide basic services. In recent years police, fire, parks, and water and sewer have taken major cuts (Hottman, 2012). Moreover, due to the recession in the early 1990s, Parks staffing was eliminated. Since then Gresham has struggled to restore 6 staff members to maintain their 1500 acres of parks, and most recently adopted a utility fee in 2012 that provides funds to police and fire, parks, and utility maintenance to make up for revenue losses incurred by compression (Hottman, 2012).
With revenues tied directly to land values, Gresham has turned its attention to targeting favorable development to improve its revenues. The region presents a competitive market for development, in which cities vie with one another to attract business in order to offer higher wage jobs. Since the mid-90s Gresham has opted to prioritize industrial and to a lesser degree, commercial development - which garner greater revenues than properties that are exclusively residential (Interviews Guillen-Chapman and Papsdorf, 2013).

Given Gresham’s low rate and property tax limits, residential development has not proven to recoup costs. Nevertheless, due to low-property value housing stock in previously unincorporated areas, Gresham has become the choice for those seeking affordable rents and commuting to higher wage jobs around the region. An inadvertent “bedroom community,” Gresham seeks to reinvent a unique identity for itself in the 21st century. Beginning in the mid-90s after the passage of Measure 5 through to the 2000s, Gresham has adopted strategies such as urban renewal, transit oriented development, and downtown revitalization in order to spur open market development, and in turn capture greater revenues. Rockwood Town Center Urban Renewal area and the Gresham Civic Neighborhood represent these efforts, with differing results.

The Civic Neighborhood, initiated in 1995 by a Neighborhood Plan of the same name, took on the ambitious transit oriented development of a 130 acres of vacant land. Now a dense mixed-use high-end condo housing and commercial center, built around the MAX light rail with pedestrian access to the historic downtown, the Civic Neighborhood is seen as a success. It was a departure from the more suburban single-family developments more popular at the time, introducing urban density, transit, jobs, and service amenities.

On the other hand, Rockwood Town Center tells a different story. Rockwood was established as an urban renewal area when voters approved a 20-year district bond in 2003. At the time, Gresham had estimated $92 million in new tax generation for the town center redevelopment. While still a part of unincorporated Multnomah County, Rockwood had once been a vibrant commercial corridor. However after annexation, the area deteriorated developing a reputation for crime, poverty, and economic stagnation earmarked by the departure of anchor retailer Fred Meyer, on SE 185th and Stark. Plans to construct a cultural marketplace, mixed use commercial, and residential at the sight were introduced in 2005, however the land remains empty in 2013 (Wilkes Neighborhood Association, 2013). The urban renewal district has failed to attract the development necessary to increase property values as Gresham had anticipated.

An additional challenge has been the city’s increasing demographic diversity. Table 3 shows the marked increase of African American, Asian American, Native, and Latino populations. In 2000 Latinos alone have grown to 10,732 making up almost 12 percent of Gresham’s population. This represents close to a 255% change in Latino population in Gresham (Figure 6). These significant increases in people of color, and striking decrease in white population has tested Gresham’s ability to adapt to changing conditions, and to provide the necessary services to its residents.
With persistent shortfalls in revenue, Gresham is deeply challenged to finance basic services of police, fire, water/sewer, and parks, spending the last 10 years to develop a long-term strategy to grapple with these revenue restrictions (City of Gresham, 2002). With a 3 percent annual limit on increasing assessed property values, revenue generation is modest at best. Measures 5 and 50 have changed the local property tax structure profoundly for Gresham, leaving little to no options to create the kind of revenues that can support this large and ever growing urban area and its diversifying residents.

While Gresham seeks to expand development to increase land values, it is also subject to Metro regional functional plans and the regional 2040 growth concept. Planning staff in Gresham feel that the real challenge is to operate within the regional framework while also encouraging robust development in both industrial and commercial sectors. Gresham’s history shows a story of surges in population and the need to “catch-up,” as staff refer to it, in terms of balancing the city’s mix of development and ability to capture revenue to pay for infrastructure and other basic services.

**Figure 6. Trends in race and ethnicity demographics, 1990 to 2000 (source: Social Explorer)**

<table>
<thead>
<tr>
<th></th>
<th>African American</th>
<th>Asian</th>
<th>Native American</th>
<th>Latino</th>
<th>White (non-Hispanic)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>1.08%</td>
<td>2.75%</td>
<td>0.13%</td>
<td>3.35%</td>
<td>93.83%</td>
</tr>
<tr>
<td>2000</td>
<td>1.89%</td>
<td>3.33%</td>
<td>0.94%</td>
<td>11.90%</td>
<td>86.08%</td>
</tr>
<tr>
<td>Percent change 1900–2000</td>
<td>7.5%</td>
<td>21.10%</td>
<td>623.08%</td>
<td>255.22%</td>
<td>–8.26%</td>
</tr>
</tbody>
</table>

**Lake Oswego**

**Brief History.** “Oswego”, as the city was originally known, was founded in 1847 by Albert Alonzo Durham. Durham received the first donation land claim and also started a sawmill, which served as the town’s first industry. Around the same time period that the new town was forming, Oregon saw the birth of its iron industry. Iron rapidly became the dominant industry and it was hoped that Oswego would become a new center that would rival industrial cities of the east such as Pittsburgh (City of Lake Oswego website).

As the iron industry declined a new focus on land development emerged. Paul Murphy was a key figure in Oswego’s early residential development. Murphy developed the Oswego Lake country club in 1924 and promoted Oswego as a place to “live and play”. Architects were encouraged to develop “fine homes” in the area throughout the 1930’s and 1940’s. In 1960 Oswego annexed a portion of the neighboring community of Lake Grove and the city was renamed Lake Oswego. In the decades since Lake Oswego has emerged as an affluent suburb.
of Portland that is amenity-rich and whose residents enjoy a high quality of life (City of Lake Oswego website).

The population of Lake Oswego increased dramatically after World War II. Between the years of 1950 and 1960 the city’s population boomed from 3,316 residents to close to 9,000 (Figure 4), representing an increase of 168.6 percent. The population has continued to grow at lesser rates since then. The period between 1990 and 2000 saw a 15.4 percent increase in population. Home values in Lake Oswego are among the highest in the region. In 1990 the median value of owner-occupied housing in the city was $231,178, whereas the median values in Cornelius and Gresham were $103,115 and $125,149 respectively. In 2000 median home values in Lake Oswego increased to $396,273, while Cornelius and Gresham’s increased to $186,497, and 213,636 (Figure 7).

Figure 7. Median home values from 1990 to 2000, adjusted for 2012 dollars (source: Social Explorer)

The Lake Oswego Redevelopment Agency (LORA) was created in 1979 primarily to revitalize Lake Oswego’s downtown area. In 1986 the East End Redevelopment Initiative was created and tax increment financing was utilized as the primary means of funding projects. The 1987-1988 fiscal year was used as the base year for tax increment financing. Lake Oswego’s redevelopment efforts have been largely successful and resulted in the creation of a new downtown. The passage of Measure 50 in 1997 impacted the amount of gross urban renewal taxes that were levied, beginning in 1998. In 1998, only $456 was lost to compression. Compression losses reached their peak between 2002 and 2003 when close to $20,000 was lost to compression (City of Lake Oswego Website).

However, Lake Oswego has generally not faced significant constraints due to Measure 50. The permanent rate introduced by Measure 50 is 4.97, which falls in the mid-range of Oregon
cities in terms of rates (Wheeler, 2010). Measure 5 has impacted decisions in the city regarding school funding. Many residents consider statewide funding to be insufficient to maintain the high quality of Lake Oswego Schools. In 2000 a local option school levy was passed which provides additional revenue to Lake Oswego schools. The levy charges $1.39 per assessed value of property and comprises 10 percent of the school budget (Rehnquist, 2013).

Lake Oswego is among the wealthiest jurisdictions in the region. Property values in the city historically have far exceeded that of other cities. Due to this affluence Lake Oswego has largely been able to avoid many of the limitations faced by other cities in the region.

Figure 8. Trends in race and ethnicity demographics, 1990 to 2000 (source: Social Explorer)

<table>
<thead>
<tr>
<th>Lake Oswego</th>
<th>African American</th>
<th>Asian</th>
<th>Native American</th>
<th>Latino</th>
<th>White (non-Hispanic)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>0.50%</td>
<td>2.66%</td>
<td>0.27%</td>
<td>1.56%</td>
<td>94.96%</td>
</tr>
<tr>
<td>2000</td>
<td>4.84%</td>
<td>4.57%</td>
<td>0.16%</td>
<td>2.32%</td>
<td>89.69%</td>
</tr>
<tr>
<td>Percent change 1900–2000</td>
<td>868.0%</td>
<td>71.81%</td>
<td>−40.74%</td>
<td>48.72%</td>
<td>−5.55%</td>
</tr>
</tbody>
</table>

Other Policy Constraints

The Metro 2040 Plan played an important role in delineating clear goals for the region. The 2040 Plan was adopted in 1994 and primarily concerned growth and development in the region for the subsequent forty years. Though contained within the plan was the realization that the Urban Growth Boundary would have to be expanded to some extent in order to accommodate projected growth, the main focus of the plan was increasing density in targeted areas in order to preserve forest and farmland. The 2040 plan identified ten key urban design types as being the “building blocks” of the regional strategy for managing growth:

- Metro 2040 Plan Building Blocks
- Central City
- Main Streets
- Regional Centers
- Station Communities
- Neighborhoods
- Corridors
- Industrial Areas and freight terminals
- Rural Reserves / Open Spaces
- Neighboring Cities / Green Corridors
There are additional federal and state anti-discrimination regulations that provide guidance to local authorities about how to focus investments to prevent or mitigate any disproportionate impacts to vulnerable communities. People based on their race, ethnicity, foreign-born status, age, gender, or those deemed “environmental justice” communities are considered “protected classes” under federal law. Both the State of Oregon Civil Rights Act of 1953 and Title VI of the Civil Rights Act of 1964 require compliance of any local government agency that receives even one penny of state or federal funding.

There is also no programmatic distinction to the funding. If any programs, such as fair housing provisions, are not compliant with Title VI, Environmental Justice, or the new Limited English Proficiency policies - the agency could stand to lose capital transportation funds awarded through Metro. These additional factors only complicate an already problematic system to fund basic public services in local jurisdictions. Moreover, in the end, state taxation laws are the culprits that confine these cities as they seek ways to improve quality of life.

Conclusion

This research into the historical perspective of fiscal capacity sought to better understand the differences found between jurisdictions in this region. Policies, plans, and key events reveal a disparate story of cities in the ability to generate adequate income streams. This research, made richer by case studies, reveals a number of important findings. The three cities were chosen to show a comparative evaluation of jurisdictions for characteristics of high vs. low capacity and inner ring vs. outer fringe. This evaluation exposes how cities have grown, in spite of a challenging history of fiscal uncertainty for some, while others reap the benefits of spatial differences within the region.

Several key points emerged through our research. The first was the influence of median income on communities, which correlates with property values and therefore property tax revenues. As was described in the case studies above, Lake Oswego, a suburb with high property values, is a high capacity jurisdiction, whereas Gresham and Cornelius, with much lower property values, also have much lower fiscal capacity. Put another way, there is a direct link between income, property values, and fiscal capacity. The most effective way for a city to increase its fiscal capacity would be to find ways of increasing property values. This is, of course, easier said than done.

Orfield notes that in a system in which local jurisdictions are dependent on property tax revenues and also in control of comprehensive land use planning, cities will attempt to use fiscal zoning to competitively attract revenue-generating industries and higher income residents (Orfield 1998). In Cornelius, faced with low revenues and high service costs while feeling constrained by statewide land use laws preventing urban expansion, city officials engaged in a protracted battle with Metro and the State in an attempt to use fiscal zoning to increase capacity. The story of Gresham is complex. A low permanent rate, the annexation of areas underserved by infrastructure, and more than its share of affordable housing leaves Gresham facing perpetual revenue shortfalls.
Possibly the most important finding that emerged through our research, aside from the fact that much of the variation in fiscal capacity simply boils down to differences in property values, is that the implications of Measures 5 and 50 run deep in this region. The lasting impacts of the “taxpayers revolt” of the 1990s created a system in which fiscal differences were locked into place for all time. As a result, those cities that were doing well when the measures passed continue to do well whereas those that were not are destined to struggle fiscally. Revenue growth is frozen in time as a consequence of the permanent tax rates, the decoupling of assessed values from market value, and incremental annual growth rates that are not tied to inflation.

Throughout our analysis, we reference Orfield’s research in this region, which found a number of challenges, differences and difficulties in terms of fiscal capacity for communities in the Portland metropolitan region. Orfield’s analysis is eerily prescient, as his work was published in 1998 - just as Measure 50 was coming online. As a result of these measures, the differences he described are now locked into place in perpetuity.
References:


City of Gresham: www.greshamoregon.gov


City of Lake Oswego. A Brief History of Our City. Retrieved from http://www.ci.oswego.or.us/library


Interviews:
1. Dick Reynolds, Community Development Director – City of Cornelius
2. Ellie Jones, Accounting Manager – City of Cornelius
4. Ron Papsdorf, Associate Planner - City of Gresham
Local Fiscal Capacity II: Current Conditions

This report characterizes the variation in current socioeconomic conditions among jurisdictions in the Portland metropolitan region and evaluates the relationship between fiscal capacity, service provision, and indicators of community well-being. In an attempt to contextualize the relationship between revenue and outcomes, we refer to the work of Myron Orfield, who developed a framework for examining differences among jurisdictions within a region. In the following section, we offer a similar analysis as the one Orfield completed for the Portland region in 1998. We examine the 2000-2010 period and discuss correlations between fiscal capacity and community indicators.

Next, we discuss the effect of special districts on disparities in resources and outcomes. In the special districts section, we chose to focus specifically on schools, given their important role in affecting household decisions and quality of life. Building upon the data analysis and research from previous sections, the fourth section includes in-depth case studies of three cities of varying sizes and
fiscal capacities (Cornelius, Lake Oswego, and Gresham). We conclude with a summary of key findings.

Note that for the purposes of this report, we use the terms municipalities and cities interchangeably. While Metro’s jurisdiction only covers the 25 cities and unincorporated county areas within the urban growth boundary (UGB), we use the term “region” to refer to all three counties (Clackamas, Multnomah, and Washington).

**Orfield’s Metropolitics**

The concept of metropolitics responds to social and economic polarization occurring in metropolitan regions throughout the nation. The polarization involves the destabilization of communities, trending towards the concentration of poverty in some jurisdictions and the concentration of wealth in others (Orfield, 1998). In municipalities experiencing negative trends like increased crime and declining school performance, social needs increase while their property tax base supporting local services erodes. Communities experiencing positive trends end up capturing larger shares of the region’s economic growth and infrastructure spending. Because their housing markets tend to exclude lower income people, these places require fewer social services and become socially and politically isolated from the rest of the region (Orfield, 1998).

Orfield developed a framework for examining the spatial distribution of poverty and wealth and the effects on quality of life by municipality within a region. The factors he used to measure metropolitan disparities include: poverty, school performance, racial segregation, crime, jobs, land use, and fiscal capacity. A variety of measures combine to characterize a municipality’s performance in each factor. For example, indicators of poverty include the number of high poverty tracts, the proportion of children below the poverty line, and median household income.

For the purposes of this report, we define “fiscal capacity” as the ability for a local government or district to generate revenue essential for providing the services and facilities needed by local residents. Fiscal capacity depends on a variety of factors including industry base, natural resources, location, real estate market, and personal incomes. Fiscal capacity determines the range and quality of services that a local government can provide to the residents and businesses under its jurisdiction.

Fiscal policy and fiscal capacity are interrelated as the local government must determine the tax rate necessary to provide a certain level of programs. In turn, the tax rate influences behaviors, including locational decisions, in ways that affect fiscal capacity. The concept of fiscal capacity also applies to school districts and other special districts, which also need to balance service provision with revenues.

The main measure of fiscal capacity that Orfield uses is property tax base, since property taxes are a main source of local government revenue. Jurisdictions compete for property wealth
through the implementation of land use regulations to support the development of expensive homes and commercial/industrial with low service needs, while discouraging lower cost housing. This strategy maximizes the ratio of revenue generated to the need for services. Fiscal zoning, however, contributes to three mutually reinforcing relationships (Orfield, 1998):

— As residentially exclusive suburbs with low tax rates continue to attract business, they are able to lower the overall tax rate while providing higher quality services.

— Jurisdictions with lower income populations (and thus higher social needs) are forced to increase tax rates, which discourage businesses from locating there. As businesses leave, the taxable property base erodes. Decreasing revenues strain the ability to provide services.

— Suburbs that were unsuccessful at attracting property wealth must pay for their services with fewer resources. “To keep tax rates from exploding, they are forced to abandon long-range thinking and frantically build the lower-valued homes and multi-family units rejected by the wealthier suburbs” (Orfield, 1998, p. 24). The need to suppress local expenditures on public services further undermines the ability to attract wealthier residents.

Together, these dynamics essentially result in an interregional transfer of taxable property value from less well-off jurisdictions to those with more resources, which happens through changes in both government and private spending. Furthering the net flow of capital, lower income people often live in lower-value suburbs but work and spend their money in high-value suburbs that lack affordable housing.

**Existing Conditions by Jurisdiction**

In this section, we provide a high level analysis of the distribution of poverty and wealth within the Portland region and among the region’s 25 incorporated cities. Specifically, we examine the 2000-2010 period (or approximate equivalent) and discuss correlations between fiscal capacity and select community indicators. The analysis begins by defining the chosen measure of fiscal capacity – the average assessed property value per household. We then discuss the correlation between fiscal capacity and select socioeconomic indicators. The section wraps up with a summary of the key findings on the trends in fiscal capacity and its relationship to community indicators and regional disparities.

In his 1998 analysis of the Portland region, Myron Orfield identified a set of indicators that enabled an analysis of the region’s cities. This analysis follows Orfield’s framework in an effort to provide a longitudinal look, where possible. We chose, however, to analyze some additional factors to provide a broader picture of existing conditions. An outline of indicators chosen for analysis is listed below:
• **Fiscal Capacity Metric**
  – Average and Median Assessed Property Values (FY 1999-00 to FY 2009-10)
  – Assessed Property Value Per Household (FY 1999-00 to FY 2009-10)

• **Demographic Indicators**

• **Wealth Indicators**
  – Median Income (2000-2011)
  – Percentage of Families Poverty (2000-2011)
  – Distribution and Concentration of Poverty (2000-2011)
  – Change in Size of Poverty Area (2000-2011)

• **Economic Indicators**
  – Job Growth (2002-2011)

• **Land Use and Infrastructure Indicators**
  – Housing Values (2000-2011)
  – Housing and Transportation Costs
  – Land Use Patterns and Practices

This section refers to data from the US Census Bureau, except where noted. The 2000 data is generally from the 2000 census, while the 2010 data is from the 2007-11 American Communities Survey Five-year Estimates.

**Fiscal Capacity**

Similar to Orfield, we categorized the region’s cities into three sub-groups: the central city of Portland, the cities with below average total assessed property values (i.e., Low Capacity Suburbs) and the cities with above average total assessed property values (i.e., High Capacity Suburbs). However due to the significant shifts in various factors since Orfield’s work in 1998, the most dramatic being the structure of Oregon’s property tax system, this analysis chose to adopt the median total assessed property value as the regional threshold by which to judge whether a city falls into the Low or High Capacity categories. Without doing this, all but two cities outside of the central city of Portland would be considered High Capacity Suburbs - a trend that is heavily influenced by a small subset of cities that have significantly higher total assessed values.

It is worth noting that there are a few important differences between the Low Capacity and High Capacity Suburb groups between 2000 and 2010. Beaverton shifted from High Capacity to Low Capacity over the period of study, while Oregon City shifted from Low Capacity to High Capacity. As a result, measuring absolute change in metrics for the Low Capacity group between 2000 and 2011 loses meaning. For this reason, we have chosen to discuss changes in regional shares of various metrics over time rather than rates of change for each group.
**Average and Median Assessed Property Values (2010 Dollars)**

In fiscal year (FY) 2009-10, the three counties that make up the Portland metro region had a combined total of nearly $145 billion in assessed property value. Just over 68 percent ($99 billion) of the region’s taxable value falls within the boundaries of incorporated cities.

The total assessed value of property varies from a high of more than $48 billion in the central city of Portland to a low of just under $4 million in the small city of Rivergrove. The fact that these 25 cities vary dramatically in scale and population makes comparison between them difficult. Therefore, we divided the total assessed property values by the number of households within its jurisdiction to provide more insight into the city’s capacity to collect revenue relative to services needs. A household includes all people who occupy a housing unit (e.g., families and roommates).

We recognize that defining fiscal capacity in “per household” terms is still problematic. First, household size varies among the different cities, so it does not directly link fiscal capacity to the number of residents. Second, commercial and industrial property also pay property tax. The proportion of a city’s land that is developed for commercial and industrial use theoretically allows these places to collect property tax revenue without having to provide the same level of service as would be the case if the land was developed for residential use. Again the quantity of these property types may vary substantially from city to city. We attempt to compensate for these missing variables by discussing the trends between fiscal capacity and key indicators such as population, job growth, and live-work patterns.

**Property Value Per Household (2010 Dollars)**

The median total assessed value per household in FY 2009-10 was $212,906. For the purposes of this analysis, those cities that fall above this value are classified as High Capacity Suburbs and those that fall below are classified as Low Capacity Suburbs. The central city of Portland is its own category.

In FY 2009-10, Portland had a total assessed property value per household of more than $194,000. The average total assessed value per household for those cities falling into the Low Capacity Suburb category was more than $173,000 while those falling into the High Capacity Suburb category had an average assessed value per household of more than $327,000.

Notably, the High Capacity suburbs saw more growth in assessed value per household between the years 2000 and 2010 when compared to the city of Portland and the Low Capacity suburbs (Figure 9). The High Capacity suburbs experienced nearly seventeen percent increase in taxable value while the city of Portland and the Low Capacity suburbs realized increases of roughly nine and fourteen percent respectively. Note that when comparisons between years are made, the subarea categories for 2010 are used (e.g., Beaverton is considered High Capacity in both years in order to accurately compare). Also note that both King City and Rivergrove were excluded from the overall average comparison in Figure 9. These cities were both outliers skewing the averages to exaggerate the differences between High and Low Capacity areas.
This growth trend in the High Capacity category is due to a significantly greater portion of its cities experiencing consistently larger percentage gains in real assessed value than those in the Low Capacity category. Figure 10 shows this trend among the five cities in each category with the highest growth in real assessed value per household between FY 1999-00 and FY 2009-10.

The top five cities in terms of growth were not identical to the top five in terms of assessed value per household in FY 2009-10 (Figure 11). For example, Oregon City was in the top five of High Capacity cities in terms of percent change in assessed value but not for assessed value per household. Of the Low Capacity suburbs, only Maywood Park and Wood Village were in the top five for both indicators. The overall trend shown in Figure 11, however, is that the top five High Capacity suburbs have substantially more assessed value per household than do the top five Low Capacity suburbs.
Table 1 provides a list of these values for each of the four groups, sorted from highest to lowest using the 2010 assessed value per household column. Based on this data, there does not appear to be a correlation between assessed values per household and change in this value over the 2000-2010 period.

Figure 10. Percent change is assessed value per household by top five cities in each category

Figure 11. Assessed value per household by top five cities in each category (FY 2009 – 10)
Figure 12 provides a list of these values for each of the four groups, sorted from highest to lowest using the 2010 assessed value per household column. Based on this data, there does not appear to be a correlation between assessed values per household and change in this value over the 2000-2010 period.

**Figure 12. Assessed value per household (2010 $)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Clackamas County</td>
<td>$210,670</td>
<td>$254,245</td>
<td>20.7 percent</td>
</tr>
<tr>
<td>Washington County</td>
<td>$202,280</td>
<td>$232,922</td>
<td>15.1 percent</td>
</tr>
<tr>
<td>Multnomah County</td>
<td>$181,551</td>
<td>$200,284</td>
<td>10.3 percent</td>
</tr>
<tr>
<td>Central City</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portland</td>
<td>$178,926</td>
<td>$194,517</td>
<td>8.7 percent</td>
</tr>
</tbody>
</table>

**High Capacity (2010)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>King City</td>
<td>$1,600,388</td>
<td>$3,076,894</td>
<td>92.3 percent</td>
</tr>
<tr>
<td>Lake Oswego City</td>
<td>$552,889</td>
<td>$688,685</td>
<td>24.6 percent</td>
</tr>
<tr>
<td>Happy Valley City</td>
<td>$403,966</td>
<td>$362,338</td>
<td>-10.3 percent</td>
</tr>
<tr>
<td>West Linn City</td>
<td>$238,832</td>
<td>$338,937</td>
<td>41.9 percent</td>
</tr>
<tr>
<td>Tualatin City</td>
<td>$252,655</td>
<td>$322,770</td>
<td>27.8 percent</td>
</tr>
<tr>
<td>Wilsonville City</td>
<td>$299,780</td>
<td>$313,117</td>
<td>4.4 percent</td>
</tr>
<tr>
<td>Durham City</td>
<td>$241,234</td>
<td>$259,818</td>
<td>7.7 percent</td>
</tr>
<tr>
<td>Tigard City</td>
<td>$232,672</td>
<td>$256,519</td>
<td>10.2 percent</td>
</tr>
<tr>
<td>Oregon City</td>
<td>$167,959</td>
<td>$253,483</td>
<td>50.9 percent</td>
</tr>
<tr>
<td>Damascus City</td>
<td>*</td>
<td>$251,206</td>
<td>*</td>
</tr>
<tr>
<td>Hillsboro City</td>
<td>$226,717</td>
<td>$249,072</td>
<td>9.9 percent</td>
</tr>
<tr>
<td>Sherwood City</td>
<td>$183,510</td>
<td>$227,155</td>
<td>23.8 percent</td>
</tr>
</tbody>
</table>

**Low Capacity (2010)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beaverton City</td>
<td>$182,568</td>
<td>$198,657</td>
<td>8.8 percent</td>
</tr>
<tr>
<td>Wood Village City</td>
<td>$141,515</td>
<td>$197,214</td>
<td>39.4 percent</td>
</tr>
<tr>
<td>Troutdale City</td>
<td>$178,362</td>
<td>$190,786</td>
<td>7.0 percent</td>
</tr>
<tr>
<td>Milwaukie City</td>
<td>$161,824</td>
<td>$176,772</td>
<td>9.2 percent</td>
</tr>
<tr>
<td>Maywood Park City</td>
<td>$156,867</td>
<td>$173,607</td>
<td>10.7 percent</td>
</tr>
<tr>
<td>Gresham City</td>
<td>$180,065</td>
<td>$171,867</td>
<td>-4.6 percent</td>
</tr>
<tr>
<td>Fairview City</td>
<td>$107,966</td>
<td>$159,797</td>
<td>48.0 percent</td>
</tr>
<tr>
<td>Gladstone City</td>
<td>$142,208</td>
<td>$157,354</td>
<td>10.7 percent</td>
</tr>
<tr>
<td>Forest Grove City</td>
<td>$139,820</td>
<td>$156,525</td>
<td>11.9 percent</td>
</tr>
<tr>
<td>Cornelius City</td>
<td>$129,071</td>
<td>$153,256</td>
<td>18.7 percent</td>
</tr>
<tr>
<td>Johnson City City</td>
<td>$52,475</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Rivergrove City</td>
<td>$235,682</td>
<td>$30,756</td>
<td>-87.0 percent</td>
</tr>
</tbody>
</table>

* Damascus was not incorporated in 2000 and tax data was not readily available. Audit reports for Johnson City indicate no property tax revenue for FY2010-11.
Note that Rivergrove, which spans two counties (Washington and Clackamas), lost a large portion of its taxable value between FY 1999-00 and 2009-10. The reason for the sharp decline is unknown, although the largest portion of value in FY 1999-00 was in Clackamas County while the Clackamas County portion in does not show up in the tax data for FY 2009-10. The other extreme case, Johnson City, is simply a small place with little valuable property. No property tax data for the city could be found for 2010. However, in 2012 total assessed value was $35,235 per household.

**Overview of Select Indicators by Fiscal Capacity Category**

In the following sections, we compare the assessed value per household in 2010 to the various socioeconomic and demographic indicators to shed light on the relationship between fiscal capacity and community well-being. Fiscal capacity affects service provision, which in turn affects the populations and businesses that locate in a given city, while the social and economic factors of the place may serve to improve, exacerbate, or have no effect on fiscal capacity.

Given the complexities of this dynamic and scope of this report, we focus on simply identifying discernable trends and correlations but do not hypothesize on the causal relationships. For reference, Figure13 provides an overview of key statistics for this section. Note that our methodology for sections 2.2 through 2.5 is to provide one or more charts that rank the 25 cities by assessed value per household in 2010, moving from highest (top) to lowest (bottom). These visualizations show the change in key indicators for the 2000-2010 or roughly equivalent period. We summarize key findings at the end.

**Figure 13. Select statistics by subareas**

<table>
<thead>
<tr>
<th></th>
<th>Portland</th>
<th>Low Capacity Suburbs</th>
<th>High Capacity Suburbs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of Region’s Incorporated Population (2000)</td>
<td>51%</td>
<td>20%</td>
<td>29%</td>
</tr>
<tr>
<td>Percent of Region’s Incorporated Population (2011)</td>
<td>49%</td>
<td>24%</td>
<td>27%</td>
</tr>
<tr>
<td>Population Density (per sq. mi) (2011)</td>
<td>4,321</td>
<td>4,146</td>
<td>2,970</td>
</tr>
<tr>
<td>Households (2011)</td>
<td>247,711</td>
<td>108,849</td>
<td>121,837</td>
</tr>
<tr>
<td>Average Household Size</td>
<td>2.3</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Percent of Population 25 + with Bachelor’s Degree or Higher</td>
<td>42.0%</td>
<td>26.9%</td>
<td>41.1%</td>
</tr>
<tr>
<td>Percent of Children Under Five in Poverty (2000)</td>
<td>16.6%</td>
<td>15.3%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Percent of Children Under Five in Poverty (2011)</td>
<td>22.1%</td>
<td>22.9%</td>
<td>11.4%</td>
</tr>
<tr>
<td>Average Assessed Value Per Household (FY 2009-10)</td>
<td>$194,517</td>
<td>$173,583</td>
<td>$327,189</td>
</tr>
<tr>
<td>Change in Average Assessed Value Per Household (FY 1999-00 to 2009-10)</td>
<td>9.0%</td>
<td>13.8%</td>
<td>16.8%</td>
</tr>
</tbody>
</table>
Demographic Indicators

Total Population and Change Over Time
In 2011, the cities with the largest populations in the region were Portland, Gresham, Hillsboro, Beaverton, and Tigard. The cities that experienced the largest rates in population growth between 2000 and 2011 were Happy Valley (191 percent growth), King City (58 percent growth), Sherwood (50 percent growth), Wilsonville (35 percent growth), Wood Village (32 percent growth), and Hillsboro (28 percent growth). Over the same period, the region experienced a 12 percent increase in its overall population.

Between 2000 and 2011, Washington County experienced a 17.7 percent rate of population growth, Clackamas County experienced a 10.5 percent rate of population growth, and Multnomah County experienced a 9.7 rate of percent population growth. Due to the complexities involved in acquiring data for the unincorporated population segments of each county, unincorporated populations are not included in the indicator analysis that follows. However, as of 2012, the population of unincorporated Washington County was 223,640 and the population of unincorporated Clackamas County was 171,220, giving each larger shares of the regional population than any of the 25 municipalities apart from the City of Portland. The 2012 population of unincorporated Multnomah County, 25,045, is roughly equivalent to a mid-sized city in the region.

There does not appear to be any direct correlation between city size and fiscal capacity. However, the cities that experienced the largest levels of population growth between 2000 and 2010 were primarily High Capacity Suburbs (Figure 14).

Population Distribution by Race
The interrelated processes of development, concentration of poverty, and racial segregation directly influence the fiscal capacity of the region’s metropolitan population. Minority populations tend to face greater challenges to economic prosperity than their White counterparts due to the strong correlation between the geographic concentrations of poverty and the geographic concentrations of minority populations. Therefore, we examine of the distribution of the region’s population by race/ethnicity and current trends in the region’s racial diversity. In the interest of dealing with non-duplicate records, we provide race data according to census categories of race alone, with Hispanic/Latino considered a separate race.

In 2011, in the Portland region, nearly 75 percent of the population was White, nearly 12 percent were Hispanic or Latino, nearly seven percent were Asian, three percent were African American or Black, three percent were two or more races, and just over one percent were American Indian or Alaskan Native, Native Hawaiian or other Pacific Islander or some other race.
The Portland region is becoming more racially diverse overall, although the growth in the non-white population is not distributed evenly among each jurisdiction. From 2000 to 2011, the region saw a seven percent decrease in its White population. From 2000 to 2011 the racial groups that experienced the largest growth were Hispanics or Latinos (45 percent), Hawaiian or other Pacific Islander (33 percent), and Asians (25 percent).

As was the case with population there does not appear to be any direct correlation between increases in non-White population and fiscal capacity (Figure 15). However, the two cities that experienced the largest percentage increase in non-White population between 2000 and 2010 were both Low Capacity Suburbs.
Figure 15. Change in percent non-white population (2000 – 2011) absolute value
Wealth Indicators

Income levels, along with the concentration and distribution of poverty, are strong indicators of the overall health of the region and its composite communities (Orfield, 1998). We use several measures to characterize disparities in income, each of which tells a slightly different story. Household income are reported here as median values (half of cases fall below this value and half above), while per capita income is reported as a mean value (per person) for an entire geography’s population. For this reason, per capita income is more likely to be skewed by extreme values (US Census, 2013).

Median Income

Median Household Income (MHI), as adjusted for inflation (in 2012 dollars), decreased across the region at a rate of 10 percent between 2000 and 2011, falling to a level of $58,564. In 2011, the cities with the highest MHIs in the region were Happy Valley ($103,081), West Linn ($94,575), Damascus ($85,798), Lake Oswego ($83,644), and Sherwood ($81,125). Those with the lowest MHIs were Gladstone ($50,058), Cornelius ($49,958), Gresham ($49,009), Wood Village ($48,769), and King City ($38,748).

In 2011, the MHI of Washington County was $65,357, the MHI of Clackamas County was $65,333, and the MHI of Multnomah County was $51,953. Figures for Washington and Clackamas counties were above the regional average, while the MHI for Multnomah County was below. Though household incomes fell across the region between 2000 and 2011, the High Capacity Suburbs generally saw lower decreases in household incomes than did the Low Capacity Suburbs over this period (Figure 16).

Inflation adjusted Per Capita Income (2012$) decreased at a rate of six percent between 2000 and 2011, to a level of $31,465 in 2011. In 2011, the cities with the highest PCI were Lake Oswego ($53,960), Durham ($50,170), West Linn ($45,629), Happy Valley ($39,102), and Tigard ($37,029). Those with the lowest PCI in 2011 were Troutdale ($25,580), Gresham ($24,029), Forest Grove ($23,727), Wood Village ($22,363), and Cornelius ($19,256).

In 2011, per Capita Income in Clackamas County was $33,165, $31,919 in Washington County and $30,259 Multnomah. The differences in county rank between median household income and per capita income partly reflect Clackamas County’s smaller population. There does not appear to be any direct correlation between per capita income and High or Low Capacity suburbs.

Percentage of Families in Poverty

The percentage of families living below the federal poverty level in the tri-county region increased from six percent to nine percent from 2000 to 2011. In 2000 among the 25 cities in the region the percentage of families living below the poverty level ranged from less than one percent (Happy Valley and King City) to nearly 14 percent (Fairview). In 2011, the variation widened to a range of two percent (Happy Valley and Rivergrove) to 20 percent (Wood Village).
This analysis shows that the percentage of families experiencing hardship in the region overall is increasing. However, this increase is not distributed evenly among all jurisdictions and the range in percentage of families living in poverty is also increasing. Furthermore, between 2000 and 2011, the Low Capacity Suburbs generally saw larger absolute increases in the percent of their family populations falling below the poverty level (Figure 17).
Figure 17. Change in percent of families in poverty (2000 – 2011) absolute value
Distribution and Concentration of Poverty

Poverty is spread throughout the region but certain jurisdictions have higher concentrations than others. One way to analyze the distribution of concentrated poverty is to compare the number of extreme poverty and transitional poverty census tracts. “Extreme poverty tracts” are those with more than 40 percent of families living below the federal poverty line, while “transitional poverty tracts” are those with 20 percent to 40 percent of families living below the federal poverty line.

In the Portland region the total number of families living in poverty increased from 22,509 in 2000 to 35,654 in 2011, representing an increase of nearly 60 percent. The total number of transitional poverty tracts in the region increased from 11 in 2000 to 40 in 2011 (Figure 18). Multnomah County had the majority of transitional poverty tracts in both 2000 and 2011; however, the number of transitional poverty tracts grew at a faster rate in Washington County compared to Multnomah County, each of which saw a percentage increase of 86 percent and 69 percent respectively.

Table 3: Transitional Poverty Tracts by County (2000 and 2011)

<table>
<thead>
<tr>
<th>County</th>
<th>2000</th>
<th>Percent of total number of tracts</th>
<th>2011</th>
<th>Percent of total number of tracts</th>
<th>Percent Change in percent of tracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington</td>
<td>1</td>
<td>1.2 percent</td>
<td>7</td>
<td>6.7 percent</td>
<td>458.3 percent</td>
</tr>
<tr>
<td>Clackamas</td>
<td>0</td>
<td>0.0 percent</td>
<td>1</td>
<td>1.4 percent</td>
<td>140.0 percent</td>
</tr>
<tr>
<td>Multnomah</td>
<td>10</td>
<td>5.9 percent</td>
<td>32</td>
<td>18.8 percent</td>
<td>218.6 percent</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
<td>3.5 percent</td>
<td>40</td>
<td>11.3 percent</td>
<td>222.8 percent</td>
</tr>
</tbody>
</table>

The Portland region had no extreme poverty tracts in 2000 and only one in 2011. The percentage of families living below the poverty line in the only elevated poverty tract in the urban growth boundary increased from 30 percent of families living in poverty in 2000 to 40 percent of families living in poverty in 2011. This tract is located in SW Portland in Multnomah County.

Figure 19 shows the percentage of families living in poverty by census tract in 2011. The cities with concentrations of transitional poverty tracts are Forest Grove, Cornelius, Hillsboro, Beaverton, Milwaukee, North Portland, East Portland, Maywood Park, and Gresham.
Figure 19. Distribution of poverty by census tract, Portland Metro Region, 2011
Economic Indicators

Educational Attainment for Population Twenty-Five and Older
Educational attainment is an indicator of stability (in terms of property values, crime, wealth, etc.) and economic opportunity at an individual level. Among the workforce population, attainment of a Bachelor’s degree and higher has been shown to have a significant correlation with above average wages and below average levels of unemployment (Bureau of Labor Statistics, 2013). Of the regional population, 38 percent of residents 25 and older had attained a bachelor’s degree or higher in 2011, a 38.5 percent increase since 2000. In 2011, the cities with the highest percentage of the population 25 and over having attained a bachelor’s degree or higher were Lake Oswego (66 percent), Rivergrove (57 percent), West Linn (56 percent), Durham (50 percent), and Happy Valley (46 percent). In 2011, the cities with the lowest levels of attainment of a bachelor’s degree or higher were Gladstone (19 percent), Gresham (18 percent), Cornelius (13 percent), Wood Village (12 percent), and Johnson City (8 percent).

In 2011, 40 percent of Washington County’s population 25 and older had attained a bachelor’s degree or higher in 2011, as had 38 percent of Multnomah County’s and 32 percent of Clackamas County’s. In 2011, the cities with the highest levels of educational attainment were primarily High Capacity Suburbs (Figure 20).

Jobs
The Portland region posted an increase in total employment of more than 3.5 percent between 2002 and 2011. This translates to a little more than 29,000 jobs according to the Oregon Employment Department; however this analysis is concerned with more than the overall regional job growth. For this reason the Census Longitudinal Employer-Household Dynamics data are used to analyze the distribution of growth in jobs and the shift in per capita jobs among the 25 municipalities in the Portland region. Note that the data accessible through the LEHD OnTheMap application was only available as far back as 2002.

Collectively, among the 25 municipalities, a total of more than 53,000 jobs were gained from 2002 to 2011, representing an 8.5 percent change from 2002. But despite this positive growth the number of jobs per capita held fairly steady; only declining about 1.5 percent, going from a little more than 58 to a little more than 57 jobs per 100 residents. The overall gain in jobs coupled with the marginal decline in jobs per capita are symptoms of both changes in economic activity and shifts in population. Unsurprisingly, these two factors do not occur evenly across the 25 municipalities, leaving some places to be net recipients of both jobs and people while others capture only one or neither.
The cities that showed the largest percentage losses in jobs, Rivergrove and Maywood Park, were also two of the smallest cities in terms of total number of jobs and population making even marginal shifts in jobs or population show up as significant percentage changes. Although every municipality’s economic well-being is of interest, the physical size and small number of jobs to begin with make these two municipalities relative outliers compared to the other metro cities.
The cities that showed the largest losses in the number of jobs were West Linn, Gladstone, Forest Grove, Damascus and Happy Valley - losing 557, 454, 231 jobs respectively. These three cities also experienced a decline in jobs per capita but notably this decline was small relative to other municipalities in the region. The fact that these three cities showed only small losses in jobs per capita while they all experienced population growth indicates that their overall economic activity during this nine year period was keeping up or staying proportional to their changes in population.

Portland, Hillsboro and Tigard all saw the largest gain in jobs (25,304, 10,565 and 4,646 respectively) and they all had positive changes, but not huge shifts in jobs per capita. Tigard posted the largest percent change (4.4 percent) moving from about 80 to 84 jobs per 100 residents. Portland and Hillsboro both held steady at roughly 65 and 70 jobs per 100 residents.

Notably Durham showed a large increase in jobs per capita, going from about 70 to 162 jobs per 100 residents between 2002 and 2011. But closer scrutiny shows that the city’s population declined markedly between 2002 and 2011 while at the same time the total number of jobs within this jurisdiction grew from 959 to more than 1,700. Another interesting fact is that people living outside the city boundary hold almost all of these new jobs. It does not appear that very many of the people living in Durham are working in Durham.

Among the medium to larger municipalities Fairview, Troutdale, Milwaukie and Sherwood all posted double digit percentage increases in jobs per capita, translating to an average of about 7 more jobs per 100 residents. The fact that three of these locales (Fairview, Troutdale and Sherwood) also experienced significant increases in population indicate that these jurisdictions seem to be net recipients of both positive economic activity and new residents.

Overall there does not appear to be a direct correlation between job growth and fiscal capacity (Figure 21). However when the different categories are analyzed in aggregate Low Capacity Suburbs seem to be seeing slower job growth (Figure 22). Furthermore the number of residents that live and work in these Low Capacity Suburbs is declining more relative to Portland and the High Capacity Suburbs.
Figure 21. Change in number of jobs (2002 – 2011)
Land Use and Infrastructure Indicators

According to Orfield, land use and zoning policies contribute to segregation by class and race within a metropolitan area. Some places use growth control measures such as zoning to “effectively ensure that only the wealthy can afford to live in those communities” (Orfield, 1998, p. 28). Limiting density combined with vehicle-oriented transportation investments can result in sprawling development patterns, which encourage car ownership (a huge expense) to meet basic needs. This limits the locations where lower income people can live. In addition, state and federal spending on the construction of new infrastructure disproportionately benefits suburbs at the expense of older, core communities that tend to need improvements but lack the tax base to adequately fund these needs.

Housing Values (2012 Dollars)

In 2011, all counties in the region had a median home value of $304,155, representing an increase of 33 percent since 2000. The cities with the highest median home values in 2011 were Lake Oswego ($520,081), Happy Valley ($410,288), West Linn ($416,536), Durham ($475,938), and Wilsonville ($331,836). The cities that experienced the largest increase in median home values between 2000-2011 were Portland, Sherwood, Lake Oswego, Tualatin, and Oregon City. The cities with the lowest median home values in 2011 were Gresham ($251,232), Forest Grove ($241,912), King City ($239,249), Cornelius ($152,399), and Wood Village ($217,434).
In 2011, the median home value was $334,191 in Clackamas County, $307,460 in Washington County, and $288,718 in Multnomah County. In 2011, the cities with the highest median home values, as well as those that experienced the highest percent change in median home values between 2000 and 2011, were overwhelmingly High Capacity Suburbs (Figure 23).

**Figure 23.** Change in median home value (2000 – 2011)
Housing and Transportation Costs

The combined costs of housing and transportation is a key indicator of a place’s role in a region. This is due to the tendency of suburbs to have lower housing costs but higher transportation costs as distances to jobs and services increase, transit service decreases, and automobile ownership becomes even more of a necessity. Combined housing/transportation costs representing greater than 45-54 percent of household income are considered burdened, as the pressure increases to trade off other necessary expenses like food and utilities. The percentage of cost burdened households reflects the relationship between income levels of the population, housing markets, and connectivity.

As the most recent measures of housing plus transportation costs are only available at the census tract level, it is difficult to draw conclusions about the burdens created by these expenses by city. However, the only census tract where the housing plus transportation cost burden was in excess of 75 percent of median household income in 2009 was in Forest Grove (Figure 24). The majority of census tracts where housing plus transportation costs fell at 54 percent or above median household income (a severe burden) were in Portland, Beaverton, Cornelius, Forest Grove, and Gresham, all Low Capacity Suburbs in addition to Portland.

Figure 24. Percent of median household income spent on housing and transportation (2009)
Growth Controls
Oregon is known for its forward thinking in land use planning and the Portland metropolitan area has benefited from this foresight. The Portland region, bounded by an Urban Growth Boundary (UGB), has effectively guarded farm and forest land surrounding its perimeter from being converted into urban uses. But within the UGB there has still been the struggle to encourage density. Even though the region’s physical growth is bounded by the UGB the 25 cities that compose it have some level of autonomy in how they choose to use the land within their smaller jurisdictions. Some would prefer to maintain or attract large lot residential development, while others may compete to attract large sprawling commercial uses that boost tax revenue but require relatively few services. In any case, the 25 cities that make up the Portland region, although held together by the UGB, often choose to implement land use planning in competing ways.

Local Government Expenditures
City governments are generally responsible for providing many public facilities such as parks, transportation (roadways, sidewalks, traffic signals, street lighting, etc), public works (e.g., sewer, storm drain, and potable water systems), and libraries. They also provide services such as planning, building code enforcement, permitting, business licensing. Economic development activities and programming for specific populations such as youth or seniors vary among cities. Some municipalities own and operate recreational and cultural facilities such as golf courses or community centers. Counties provide a similar set of facilities and services to the unincorporated areas in their jurisdiction, but they are also responsible for providing human, health, judicial, and electoral services to the entire county. Most cities have their own police and fire departments, although some smaller and/or rural municipalities contract with the County for these services.

Expenditures generally fall into four main categories: personnel (salary and benefits), materials and services (think admin, gas), capital projects (street repair, pipes, etc.), and debt repayment. Personnel-related costs tend to comprise the majority of expenditures.
Key Findings on Fiscal Capacity

Regional Trends
Between 2000 and 2011, the population of the three-county region increased at a rate of 12 percent. Washington County saw the largest rate of increase in its population (18 percent), while Multnomah County saw the smallest (10 percent). The region is increasingly suburbanizing. Over the period of analysis, regional incomes fell in real dollars in all counties while home values increased. Of the three counties, Multnomah County had the lowest median household income, the lowest median family income and the lowest per capita income in 2011. At the same time, home values increased the most in Multnomah County between 2000 and 2011, though they were the highest on average in Clackamas County in 2011. Over this same period, poverty rates increased at a much higher rate within the region than did the overall population, and job growth occurred at a lower rate than the population grew.

Clackamas County led the three-county region by posting the largest increase in total assessed property value (37.2 percent) and assessed value per household (20.7 percent). Washington County saw the second largest increase in values - total assessed value (36.8 percent) and assessed value per household (15.2 percent) - while Multnomah County experienced the smallest gain in values with total assessed value increasing 23.5 percent and assessed value per household increasing 10.3 percent.

In general the suburbs in the Portland region are capturing the largest increases in taxable property value. This increase in taxable value is positively correlated with population growth and job growth.

Low Capacity v. High Capacity Trends
Between 2000 and 2011, the share of the regional population living in both Portland and its High Capacity Suburbs decreased slightly (around 2 percent), while the share living in Low Capacity suburbs increased four percent. This indicates that the region’s population has been increasingly living in Low Capacity Suburbs over the past decade, though more people currently live in Portland than in both the High Capacity and Low Capacity Suburbs combined. The following are key findings:

• The assessed value per household in High Capacity Suburbs increased more than the value in the city of Portland and the Low Capacity suburbs. The High Capacity suburbs experienced nearly a seventeen percent increase in taxable value while the city of Portland and the Low Capacity suburbs only realized increases of nine and fourteen percent respectively.

• In 2011, Portland had the lowest median household income ($50,177) of the three groups, followed closely by the Low Capacity Suburbs ($51,432). The median household income of the High Capacity Suburbs was over $15,000 (or 31 percent) higher than the Low Capacity Suburbs in 2011.

• On average, Low Capacity Suburbs saw larger absolute increases in the percent of families falling below the poverty level.
• The share of the population having attained a bachelor’s degree or higher in 2011 was roughly equivalent in Portland (42 percent) and the High Capacity Suburbs (41 percent) in 2011. The Low Capacity Suburbs lagged significantly behind the other two groups and the regional average (37 percent), with only 27 percent of its population having attained a bachelor’s degree or higher in 2011.

• Low Capacity Suburbs seem to be seeing slower job growth. Furthermore, the number of residents that live and work in these Low Capacity Suburbs is declining by a greater percentage relative to Portland and the High Capacity Suburbs.

• In 2011, the cities with the highest median home values, as well as those that experienced the highest percent change in median home values between 2000 and 2011, were overwhelmingly High Capacity Suburbs.

• Average household size was lower in Portland (2.3) than the other two groups, which each averaged 2.6 people per household in 2011.

• In 2011, Portland had a slightly higher population density (4,321 residents per square mile) than the Low Capacity Suburbs (4,146 residents per square mile), and the High Capacity Suburbs had a significantly lower population density (2,970 residents per square mile) than either of the other two groups.

Special Districts

This section discusses the role of special districts in affecting the distribution of resources and the potential to influence disparities in community indicators. People have established special districts to address specific issues such as natural resource management and the provision of utilities and emergency services. The number of special districts in the nation has been increasing over the past few decades. This is largely due to several related factors: local governments are becoming financially stressed and increasingly fearful of proposing tax increases, while citizens are becoming increasingly interested in easier-to-form and easier-to-manage special districts as a means of accessing services (Stephens, 1998). For example, the state of Oregon has 1,265 special purpose districts, including 230 school districts and 1,035 special districts, compared to its 36 counties and 241 municipalities (US Census Bureau, 2012).

Special districts receive many of the same benefits as public governments, including financial reach, tax exempt status, and quasi-monopolistic service delivery. These benefits, coupled with the political isolation, management flexibility, and financial discretion of private corporations uniquely situate special districts to provide services to residents more efficiently than local governments can (Stephens, 1998). Being able to take advantage of economies of scale allows them to provide services at cheaper rates than a single smaller individual entity would be able to, if at all. Because of these advantages, special districts play can play an important role in influencing the disparity in distribution of resources. Special districts can ensure that at least for some services, cities and their residents have equal access.
A number of special districts have been formed in the Portland region, each providing an important service to its service population. Clean Water Services, Trimet, Fire Districts, Parks and Recreation Districts, and Sheriff Patrol Districts provide a summary of the variation in purpose and size of special districts in the Portland region that affect its residents’ quality of life. Clean Water Services serves 542,000 customers and provides wastewater and stormwater services, flood management and water quality projects, among other services to its 12 member cities. Trimet provides the Tri-County region with access to transit services and plays a crucial role in transportation in this region. Parks and recreation districts, like Tualatin Hills Park and Recreation District (THPRD) serves 230,000 residents in Beaverton and a number of unincorporated areas in eastern Washington County. THPRD provides parks and recreation facilities, programs, and high-quality services and natural areas to its service population. Fire Districts provide vital fire, rescue, and emergency services to their service populations. Multnomah County Fire District 14 is one of many fire districts in the Tri-County area, its service area spans 40 square miles and includes the unincorporated communities of Corbett, Springdale, Aims, Latourell, Bridal Veil and Coopey Falls. The Enhanced Sheriff Patrol Districts provides valuable patrol services to the urban, unincorporated areas of Washington County that lie outside of a city.

While special districts serve as viable and important financial mechanism for providing services to residents, they can only be used to reduce the disparity in services provided to residents, but they will not eliminate it. While the funding sources of special districts varies and can from a variety of sources, some special districts do receive a portion of their services from property taxes, subjecting them to the same fiscal capacity limitations that cities face. For example, nearly 60% of THPRD’s revenue for 2013-2014 comes from property taxes (http://cdn1.thprd.org/pdfs2/document2276.pdf).

Only 3 percent of property taxes in Multnomah County went to special districts in 2011-12, compared to 19 percent for Clackamas and Washington counties (Figure 25). This represents nearly $50 per resident in Multnomah County and $293 and $282 per resident in Clackamas and Washington counties, respectively. This finding suggests that either special districts in Multnomah County rely more heavily on other revenue sources for funding and/or that cities and counties in Multnomah provide more of the services that special districts provide in the other counties. This may be a result of the more rural nature of Clackamas and Washington counties and the economies of scale that special services can provide to multiple and smaller jurisdictions.

Conversely, a higher percentage of property taxes went to cities and counties in Multnomah County compared to Washington and Clackamas. Interestingly, when dividing by the estimated 2011 population, property taxes per capita are very similar for each county: $1,578 per Clackamas County resident, $1,536 per Multnomah County resident, and $1,510 per Washington County resident. As an example of how property tax revenue generated is allocated, in Lake Oswego, only 34 percent goes to directly to the City, while 44 percent goes to the Lake Oswego School District, and the remaining 22 percent goes to Clackamas County and other taxing districts (City of Lake Oswego, 2013).
In addition to property taxes, special districts often get a large portion of their operating revenue from charges and fees. Based on the national average, charges provided about 40 percent of revenue for special districts (Fisher, 2007).

The remainder of the sections focuses on school districts, given that they play a very important role in affecting household decisions and quality of life.

**Schools**

Education is fundamental determinant for increased income and wages, vitality of health, and reduction of poverty. Inequities in school funding can lead to disparity in services provided and combine with other factors to perpetuate generational disadvantage and opportunity. Studies have shown that higher achievement scores amongst students are linked to teachers with higher levels of education, more experience, and higher competency scores, which tend to be the highest paid teachers in a school district (Darling-Hammond & Post, 2000; Elliott, 1998; Ferguson, 1991; Ferguson & Ladd, 1996, as cited in Biddle & Berliner, 2002, p. 55).

Much research on education funding and outcomes only considers what is happening within a school and assumes that all else is equal. This is problematic because student performance reflects not just the quantity and quality of school resources but conditions at home, in the community, and even the region. Disadvantaged students suffer most from inadequate and inequitable school funding, primarily because those students “are more likely to attend poorly funded schools, and they are more likely to be hurt by lack of academic resources when schools are underfunded” (Biddle & Berliner, 2002, p. 58). In other words, poorly resourced schools reflect and reinforce problems at the community level, making school district capacity an important component of overall fiscal capacity and equity in the region.

This section analyzes the relationships between fiscal capacity, student performance, and demographics for school districts in the Portland region. Examining disparities in achievement across school districts can highlight specific deficiencies in how the system allocates resources and where policymakers should target improvement (Greater Portland Pulse). Correlations with fiscal capacity and demographic indicators such as race and poverty further illuminate equity issues.

<table>
<thead>
<tr>
<th>County</th>
<th>Total</th>
<th>Counties</th>
<th>Cities</th>
<th>Schools and ESD</th>
<th>Community Colleges</th>
<th>Special Districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clackamas</td>
<td>$589,983,978</td>
<td>18%</td>
<td>14%</td>
<td>46%</td>
<td>4%</td>
<td>19%</td>
</tr>
<tr>
<td>Multnomah</td>
<td>$1,113,586,551</td>
<td>26%</td>
<td>33%</td>
<td>35%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Washington</td>
<td>$791,736,473</td>
<td>18%</td>
<td>15%</td>
<td>44%</td>
<td>4%</td>
<td>19%</td>
</tr>
</tbody>
</table>

*Figure 25. Percent of property taxes imposed in county by government type (FY2011 – 12)*
School Districts in the Portland Region
The three-county Portland region has 25 school districts. While school district boundaries do not align precisely with counties or cities, there are 10 districts serving Clackamas County, eight serving Multnomah County, and seven serving Washington County. The region also has three education service districts (ESDs), which provide support services for the school districts that make up the ESD (LRO, 2013). The three ESDs correspond to each of the three counties in the Portland MSA (Clackamas, Multnomah, and Washington Counties). Note that this analysis includes districts outside of Metro’s jurisdictional boundaries to provide a more complete picture of equity across the three counties.

School Financing in Oregon
In part to improve equity among school districts, voters in Oregon passed Measure 5 in 1990. This legislation transferred most of the responsibility for K-12 school funding from local government to the state, in order to equalize funding between school districts based primarily upon the number of students enrolled. The measure of equity is essentially “equal financial resources per student for similar groups of students,” which only allows adjustments in funding to account for differences in the costs to provide equal educational opportunities (LRO, 2004).

The 1990 legislation established an equalization formula (Figure 26). On the revenue side, state and local revenues are essentially combined into one pot to determine the total amount of funds for allocation to school districts. Most state revenue comes from lottery and state income taxes. The primary source of local revenue is the property tax. Other sources of local revenue include federal forest payments, county school funds, the state Common School Fund, and state timber sales. In essence, individual school districts keep the property tax revenues generated in their jurisdiction, while state revenues represent the balance of the district’s allocation. (Although uncommon, a school district can keep property tax revenues that exceed their total allocation determined by the equalization formula.)

Figure 26. Diagram of Equalization Formula
The allocation to a given school district depends primarily upon the number of students enrolled, although the formula applies a number of cost factor adjustments. First, weights are assigned to certain students that need more or less resources. The weighted student count is adjusted for teacher experience to account for the higher salary costs of teachers with more experience. The formula then adjusts for cost related to providing transportation, serving students with disabilities, and equipping and furnishing new classrooms.

In the 2010-11 fiscal year (the most recent data available), the state contributed about 64 percent of the total formula operating funds, increasing from 30 percent before 1990. Currently, 95.5 percent of the state and local funds goes to K-12 school districts, while the remaining 4.5 percent goes to ESDs. The funds going to ESDs are proportional to the sum of revenue allocated to their component districts.

Separate from the equalization formula, schools also receive funds from the federal government for specific programs such as school lunch and special education. Federal transfers represent about 13 percent of total K-12 school funding in Oregon (LRO, 2013).

**Fiscal Capacity**

One indicator commonly used to compare the fiscal capacity of a school district is the amount of money spent per student. Because of the state’s equalization formula, this figure represents the average cost to provide educational services using federal, state, and local funding. The regional average of per pupil spending per district was $9,118 in 2011, with spending ranging from $7,500 to $12,317. On average, Multnomah County students receive more funding than students in the other two counties. This at least partly reflects the equalization formula’s weighting of populations with greater educational needs, which tend to concentrate in urban areas near other support services.

Another indicator of fiscal capacity is total revenue from local sources. Given that property tax is the primary source of local revenue for school districts, this indicator reflects the ability for school districts to generate revenue. The US Census Bureau provides annual data on revenue and expenditures by school district. The most recent year data is available is 2011. Dividing the total revenue by the fall membership (student enrollment) normalizes the data based on the school district size and allows for comparison across the region.

As shown in Figure 27, the school districts with the highest revenue from local sources per student in 2011 were: Riverdale ($12,150), Lake Oswego ($7,530), and West Linn-Wilsonville ($6,240). The districts with the lowest local revenues per student were: David Douglas ($2,150), Colton ($2,480), and Reynolds ($2,600).

Refer to Appendix A for the remainder of the data analyzed in this section.
Figure 27. Total revenue from local sources per student by school district (2010–11)

Public School Attendance

Public school attendance reflects the confidence in a public school system and the ability of the system to meet the educational needs of the population it serves, given the option for private or home schooling. A strong public education system is essential to the community well-being because many families would not otherwise be able to afford private education. Investment in local schools can strengthen neighborhoods, increase social capital, and support civic engagement (Greater Portland Pulse).

In 2012, about 90 percent of K-12 students in the Portland region were enrolled in public schools, similar to statewide and national figures. The percentage does not vary widely by county, but spatial trends are apparent in the percentage of high school students who attended public school. The areas with a lower than national average of public school enrollment are: Lake Oswego/West Linn/Wilsonville, East and Central Beaverton/Cedar mill, and West Portland. These areas correlate with high median household income levels relative to the region, likely reflecting not only a higher willingness to pay for private school but also dissatisfaction with public schools to provide a quality education.

Chronic Absenteeism

Attendance rates are an indicator of a district’s schools ability to captivate learners, as well as the students’ ability and motivation to attend school. Chronic absenteeism, which occurs when students are absent 10 percent or more of school days, can have devastating consequences for school performance, especially for students from lower income families. While high attendance rates can reflect stability in home life and other conditions that support student achievement, “truancy is a strong predictor of adolescent drug, alcohol, and tobacco use” (Sheldon, S. and Epstien, J., 2004). Therefore, this indicator reflects a variety of conditions inside and outside of schools that affects overall school performance.

During the 2011-2012 school year, the districts with the lowest rates of chronic absenteeism (9-11 percent) were Riverdale, Lake Oswego, Corbett, and West Linn-Wilsonville. Banks School District had the highest rate of chronic absenteeism with 32 percent, followed by Parkrose, Reynolds, Centennial, and David Douglass (25-27 percent).

High School Graduation Rates

Like attendance, graduation rates reflect a variety of external and internal factors that captivate students to learn and achieve academically. To meet the statewide goal of 100 percent high school graduation in 2024-2025, the Oregon Department of Education has established graduation targets for the percentage of students to graduate each year. In 2011-2012, five school districts in the Portland region did not met the target of 67 percent: Estacada (30.8 percent), Gaston (65.9 percent), Parkrose (64.9 percent), Portland (63.1 percent) and Reynolds (57.8 percent). Of these districts, the overall 4-year high school graduation rate increased between 2008-2009 and 2011-2012 in Parkrose, Portland, and Reynolds, but decreased in Gaston and Estacada.
Student Achievement
According to Greater Portland Pulse, meeting a state benchmark ("proficiency") provides a fairly crude measure of student achievement. This data, however, is widely available and allows for comparison across states and school districts, making it a commonly used indicator for primary education performance. During the 2012-2013 school year, the percentage of third and sixth grade students who met or exceeded math and reading assessment standards were below the state average in seven school districts in the region, including Gaston, Forest Grove, Parkrose, Gresham Barlow, Estacada, Centennial, and Reynolds. The Reynolds School District had the lowest levels of student achievement in all but one indicator (the percentage of third grade students meeting or exceeding reading standards).

Interestingly, sixth grade reading achievement levels do not correlate well with the other measures of school performance. Across the region, third graders identified as Black/African American, Hispanic/Latino, low income, migrant, and American Indian/Alaskan Native have substantially lower achievement levels than do their Asian and white peers (Greater Portland Pulse).

Racial Segregation
In 2010, Black, Hispanic, Asian, and American Indian students represented 26 percent of students in the Portland region. In 2010, the five school districts with largest percentage of non-White students were Parkrose (38.7% non-White), Reynolds (38.3% non-White), David Douglas (36.9% non-White), Forest Grove (34.5% non-White), and Hillsboro (34.3% non-White). At this same time, the five school districts with the smallest percentage of non-White students were Colton (6.3% non-White), Corbett (9.3% non-White), Banks (9.4% non-White), Estacada (10.7% non-White), and Oregon Trail (11.6% non-white). In every school district except for Riverdale, Hispanic or Latino students represent the largest percentage of non-White students. Of all the school districts in the region, Forest Grove had the highest percentage of Hispanic or Latino students (29 percent).

Analysis
Comparing total revenue from local sources per student (the measure of fiscal capacity used for this analysis) to the indicators of school performance reveals some interesting, although not entirely unexpected trends. Districts with higher fiscal capacity had higher student achievement levels, particularly at the primary education levels (third and sixth grade). Conversely, the districts with lower local revenues per student had the lowest high school graduation rates and lower to average primary student achievement levels. The two exceptions to this trend are Portland Public School District, which scored high on fiscal capacity and achievement levels but had the one of the lowest high school graduation rates, and Colton School District, which has low fiscal capacity but performed in the average to high ranges in school performance.

The most apparent factor explaining the relationship between racial distribution, fiscal capacity, and school performance is related to the location and population density of the
school district. The districts with the highest percentage of white (non-Hispanic) population are found in the more rural parts of the region (i.e., Colton, Corbett, Banks, Estacada, Oregon Trail, Gaston). With the exception of the Oregon Trail School District, all of these rural, white districts have low fiscal capacity and have mixed performances.

The districts with a white (non-Hispanic) population share below the regional average are located in east Multnomah County (Parkrose, Reynolds, David Douglas, and Centennial districts) or suburban areas of Washington County (Forest Grove, Hillsboro, and Beaverton districts). With the exception of Beaverton, these districts have relatively low fiscal capacity and low school performance metrics (other than sixth grade reading achievement levels, which are somewhat high for several of these districts).

The districts that appear to perform well across most or all of the metrics and have higher fiscal capacity generally fall in the middle of the regional spectrum in terms of racial distribution. These districts include Beaverton, Tigard-Tualatin, Portland, North Clackamas, West Linn-Wilsonville, Canby, Riverdale, Gladstone, Sherwood, and Lake Oswego.

The analysis found that even with the state’s equalization formula, which is intended to improve equity, differences remain in terms of outcomes. There are apparent relationships between indicators of school quality, racial distribution, and fiscal capacity, but no correlation with expenditures per student. While using local source revenue per student as the indicator for a school district’s fiscal capacity is not linked directly to the funding received to provide services, it does indicate the capacity of the community to provide conditions that are supportive of educational performance. This finding supports the theories in the literature that demographic and external factors associated with the community are very important in education outcomes.
Case Studies

This section continues to explore differences in current socioeconomic conditions between cities within the Metro region and the relationship between fiscal capacity, service provision, and community well being. Three cities, Cornelius, Gresham and Lake Oswego were chosen as they exemplify cities on the low and high end of the spectrum (determined by using median assessed housing value). The case study cities were also chosen because they represent low (Cornelius), medium (Lake Oswego) and high population (Gresham) cities and are located in different counties (Washington, Clackamas, and Multnomah) within the Metro region (Figure 28).

This section of the report provides an overview of the land use patterns and current socioeconomic conditions of each city, as well as a description of fiscal year 2013-2014 revenues and expenditures and an analysis of fiscal capacity limitations. Next is a comparison of demographic indicators, followed by a summary of our findings. For reference, key data is summarized in Figure 29.

Figure 28. Map of case study cities

Figure 29. Demographic indicators for case study cities (2010–11)

<table>
<thead>
<tr>
<th></th>
<th>Population</th>
<th>Median Income</th>
<th>Poverty</th>
<th>Education Attainment</th>
<th>% Job Growth (2002-11)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cornelius</td>
<td>11,706</td>
<td>$51,696</td>
<td>15.8%</td>
<td>13%</td>
<td>0.24</td>
</tr>
<tr>
<td>Gresham</td>
<td>103,637</td>
<td>$58,219</td>
<td>13.5%</td>
<td>18%</td>
<td>11.51</td>
</tr>
<tr>
<td>Lake Oswego</td>
<td>36,704</td>
<td>$111,558</td>
<td>4.4%</td>
<td>66%</td>
<td>0.8</td>
</tr>
</tbody>
</table>
Cornelius

Overview
In 2011, 11,706 people resided in Cornelius. This marked an increase of 20 percent since 2000, stretching already tight City resources. Of those residents, one third were under the age of 18. The majority of housing in Cornelius is modest, single-family homes, with an average assessed value of $153,256. Cornelius is a low-income community. Many families are struggling with poverty and 75 percent of children are on free and reduced lunches. School registration has increased by 40 percent over the last five years, creating capacity issues. Cornelius has the largest non-White populace in the region, with a prominent Hispanic and Latino population.

Most residents of Cornelius work, shop and play outside of the city in nearby Hillsboro or Forest Grove. Of those that do work within city limits, the largest employer is Wal-Mart with 294 employees, followed by Fred Meyer with 194 employees. The City of Cornelius employs 50 people. Commercial activities are limited and are concentrated along Baseline and Adair streets, with Wal-Mart and Fred Meyer anchoring the north and south end of the city (City of Cornelius, 2013).

Revenue
The total revenue of the City of Cornelius for fiscal year 2013/2014 was $26,986,031. Cornelius’s revenue is comprised of 10 revenue streams. The largest revenue generator for Cornelius at 20 percent is charges for services. The City charges a utility rate for water, sanitary sewer, stormwater, street lighting. Although the City owns portions of its water utility it purchases water from the City of Hillsboro for distribution. In addition, Cornelius owns and operates stormwater and sewer collection facilities but Clean Water Services is responsible for treatment (City of Cornelius, 2013).

The next largest revenue source at nine percent is other financing sources. This category includes grants such as Community Block Grants, donations, and interest. Property tax is the third largest revenue source at eight percent. The property tax rate in Cornelius is 3.98 per 1,000 of assessed value. In addition to being the largest employer in the city, Wal-Mart also contributes the largest share of commercial taxes. The other revenue streams include: other taxes (i.e. excise taxes, cigarette, and alcohol tax); licenses and permits (i.e. business licenses, plumbing permits); intergovernmental revenues (i.e. Tri-Met, Washington County); fines and forfeitures (i.e. library and traffic fines); franchise fees (fees for use of the right-of-way by private utilities such as PGE); systems development charges (one-time fee on new construction or redevelopment); and transfers and allocations (intercity transfer of funds to different departments) Lastly, 33 percent of the current budget is made-up of a contingency fund, which is essentially the city’s savings account and is therefore not considered the largest revenue generator (City of Cornelius, 2013).
Expenditures
For the fiscal year 2013/2014, the total expenditures for Cornelius is forecasted at $20,201,913. Expenditures fall into five categories: personnel services (i.e. salary, training, uniforms); materials and services (i.e. computers, pipes, fuel); capital (i.e. street repair, vehicle replacement); transfers to other city departments, and debt. Capital projects are the biggest cost, representing 28 percent of all expenditures. Capital projects also lead to the greatest budget fluctuations. One-off projects like the recent Baseline street revitalization project can temporarily inflate a budget. Personnel services and materials and services are the next largest expenditures and together account for 48% of all expenditures (City of Cornelius, 2013). These expenditures allow the City to provide basic services and facilities to residents including police and fire protection, library, street construction and maintenance, parks, and utility infrastructure.

The revenue for most government services comes from the general fund. At $5,723,753, the general fund only makes up a small portion of Cornelius’s annual budget. Property taxes contribute to 42 percent of the general fund, meaning that the City is incredibly dependent on property taxes to pay for most of the services residents expect. As a result, Cornelius is limited in the services it can provide. It does not have a middle or high school, a courthouse, a recreation center, a planner, or fire chief (City of Cornelius, 2013).

Cornelius Library
The failure of the recent bond measure to fund a new community library in Cornelius is illustrative of the fiscal constraints of both the City of Cornelius and its residents. Since 2004, the Cornelius library has seen an 83 percent increase in visitors. However, the current 3,000 square foot library is operating at capacity, and there is not enough space to meet demand for book collections, computers, community meetings, and activities such as story time (City of Cornelius, 2013).

The new 16,000 square foot library, dubbed Cornelius Place, would have also included an adjacent community space and 41 affordable seniors housing units on the second and third stories, funded through a partnership with a housing non-profit. The total cost of the project, including the community room and housing, was estimated at 12.8 million. The housing non-profit had agreed to raise $8 million, and the Friends of the Cornelius Library group had agreed to fundraise an additional $2.4 million. Measure 34-205 would have authorized the City to issue $2.4 million in general obligation bonds. The bond would have increased property taxes by about 29 cents per $1,000 of assessed value, which is around $52 a year for the owner of an $180,000 home. Although most residents of Cornelius were in support of a new library, on November 5, 2013 the bond measure failed with 53 percent voting against it, suggesting that Cornelius residents were unwilling or unable to pay for another expenditure (City of Cornelius, 2013).
Fiscal Capacity Limitations
Most housing in Cornelius is modest and there are few commercial and industrial properties. Therefore, the amount of property taxes generated in Cornelius to pay for services is very low. In addition, the Oregon property tax system, which caps property taxes at three percent annually, makes it even more difficult for small communities to generate funds. Residents of Cornelius themselves are fiscally constrained, as witnessed by the recent failure of the library bond measure. This suggests that the fiscal capacity of the City and residents are linked: the City's capacity cannot be improved unless the capacity of its residents is improved as well.

Lastly, while partnerships with adjacent communities have provided some benefits and efficiencies, for example, the City shares a courtroom with Forest Grove, the lack of services and amenities for residents (e.g., jobs, facilities such as pools, etc.) are adding further fiscal constraints, as revenue that could be generated within the City continues to be spent elsewhere. The City of Cornelius is struggling to provide the most basic services such as fire and police services for its residents. City priorities are incredibly modest. When asked what the City would prioritize if fiscal capacity limitations were not an issue, the answer was a fire engine (Jones, 2013).

Gresham
Overview
The city of Gresham has historically functioned as a retail center for rural east Multnomah County, providing regional goods and services such as farm equipment and supplies, auto manufacturing, logging industry services, banking, and general commercial services. The city continues to provide commercial services to outlying areas, but it is now mostly a residential community. Approximately 90 percent of the developed land in Gresham is zoned for residential uses.

Commercial uses are located mostly in the downtown area and along major arterial streets in the form of strip developments. Industrial uses occupy a very small portion of the total land area. The City currently has two initiatives (Gresham Competitiveness Project and Central Rockwood Plan Update) dedicated to spurring and breaking down barriers to allow opportunities for more commercial and industrial development. Gresham also annexed two additional rural cities: Pleasant Valley and Springwater in 1998 and 2002, respectively. The City adopted a Community Plan for Springwater in 2011 that focused primarily on developing industrial and high-tech campuses and attracting businesses for job growth.

Gresham’s population as of 2011 was 103,637, the second largest city in the Portland metropolitan region. The city grew by almost 15 percent between 2000 and 2011. The number of jobs in Gresham has increased by 11.5 percent in the last ten years, substantially more in comparison to Cornelius and Lake Oswego. However, only 20 percent of those employed live in Gresham, and people who commute to Gresham from other cities have been increasing in number.
In 2011, Gresham had the seventh most racially diverse population out of the 25 cities in the metropolitan area, and racial diversity is increasing. Educational attainment in Gresham remains among the lowest in the region, with attainment of bachelor’s degree or higher hovering at 18 percent since 2000. Median household income has fallen 18 percent from approximately $60,000 to $49,000 over the past decade. The number of families living below the poverty level increased by 88 percent between 2000 and 2011, increasing as a proportion of the total population from eight to 14 percent. Gresham now has the fifth highest percentage of families living below the poverty level of all cities in the region.

Revenue
The total revenue adopted by City Council for 2013-14 is $384,355,722. Most of the revenue for Gresham is generated from inter-fund transfers (16 percent), intergovernmental revenue (12 percent), and charges for services (11 percent). Taxes make up just 7.6 percent of the total revenue. Taxes includes property tax, state income tax, business income tax, hotel and motel tax, liquor tax, cigarette tax, and 911 tax. Other sources of revenue come from internal service charges, utility license fees, interest income, and licenses and permits.

These revenue sources are allocated to different types of funds, which include the general fund, business funds, infrastructure funds, and administrative support funds, non-operating funds, and capital funds. Within the general fund, almost 50 percent is comprised of property taxes (49.4%). Business funds include revenues for rental inspection, urban design and planning, building, and urban renewal; these are generally expected to decrease due to the recession. Infrastructure funds include revenues for transportation, streetlights, infrastructure development, water, stormwater, and wastewater.

Expenditures
Capital Projects represent over 17 percent of the city’s expenses. Inter-fund transfers comprise almost 16 percent. The rest of the expenses are mostly allocated to services and departments such as police, fire and emergency, economic development, community development, urban design & planning, urban renewal, environmental services, central support services, and debt services. The largest portions of these funds are going to the Department of Environmental Services and police services.

Unappropriated funds, also referred to as the Fund Balance, comprise over a quarter of the total expenditures in Gresham. This fund is set aside in the budget to be used as carryover to the next year’s budget to provide cashflow. While the Fund Balance is listed as the largest portion of city’s expenditures, it is essentially the city’s savings account and is therefore not considered the largest revenue generator.
Police, Fire, & Parks Fund

In recent years, the City of Gresham has struggled to balance their budget given their limited revenues and desired level of expenditures. In 2012, Gresham adopted a Police, Fire, and Parks fee and established a temporary fund to track its usage. In addition to collecting fees from residents, the new fund also collects revenue from one-time business license surcharges assessed to larger businesses. About 95 percent of these funds are being used to maintain public safety services, and the remaining support parks maintenance.

As the temporary fund expires in June 2014, Gresham will need to decide on alternatives to balancing their future budgets. Priorities will likely involve public safety services, including keeping fire stations and emergency services operational and functioning efficiently. The City would also like to make targeted investments in the maintenance of internal systems to keep costs low but systems current. This includes replacing streetlight fixtures with energy-saving LED fixtures and purchasing three fire engines. New business and infrastructure investments are also a major priority for Gresham to boost economic growth. Gresham is currently undergoing a plan update for the Central Rockwood Plan, which aims to break down barriers to the development of the town center.

Fiscal Capacity Limitations

Property taxes make up 49 percent of the City’s General Fund. The property tax revenue of $24 million is much less than the $46 million needed to provide basic public safety services (i.e., police, fire, and emergency services). The city is restricted in generating additional property tax revenue due to limitations imposed by Measure 5 and Measure 50. Even though Gresham has the fifth highest total assessed valuation in the region with $6.9 billion, Gresham receives one of the lowest amounts of property tax revenue in the region at $3.61 per thousand dollars of assessed value. Assessed values per household dropped by 4.5 percent between 2000-10. According to Gresham’s Director of Budget and Financial Planning, property tax compression due to Measure 5 limits are a major issue for the city.

The overall economic trends for the City of Gresham have been sluggish as it tries to recover from the recession. The slow recovery is in part due to a “weak residential and commercial investment and reductions in resources from other government agencies” (City of Gresham’s Adopted Budget FY 2013-14). Gresham is expecting the economy to improve relative to the incremental pace of recent years, but the city is concerned about the challenges in predicting timing and the course of recovery in relation to the rest of the state.

Declines in construction and commercial markets have had a severe impact on the City’s development related fees such as building permits, plan reviews, and inspection fees. The city saw a decline in this revenue source of 65-70 percent from pre-recession highs. As a result, the city expects to see a continuing trend in low funds for Building, Urban Design & Planning, and Infrastructure Development, making it difficult to support growth related activities. In turn, the slow growth in land use development creates low expectations for a substantial increase in property tax revenue. Given that property taxes comprise a significant share of the
General Fund, the depressed market will continue to be a major setback toward improving the City’s fiscal capacity.

According to the Director of Budgeting and Finance at the City of Gresham, another major challenge is providing infrastructure and services to the aforementioned annexed cities Pleasant Valley and Springwater. Pleasant Valley was added to accommodate forecasted population growth, while Springwater was added in large part to address the short supply of industrial employment land in the city and the region. However, with limited fiscal capacity, providing adequate services and infrastructure to these cities as planned is a major challenge.

**Lake Oswego**

**Overview**

Lake Oswego’s land area is primarily residential, with nearly 60 percent of land zoned for low-density residential development (City of Lake Oswego, 2012). Although mostly residential, the city contains some commercial development and light manufacturing. Most businesses are located within the Lake Grove business district, Kruse Way, and the Lake Oswego downtown area.

In 2012, Lake Oswego’s population was 36,704 residents, only a slight increase over its 2000 population of 34,278 residents. Its four percent population increase was the smallest in the Metro area. In 2011, 17,000 jobs existed in the city, nearly 90 percent of which were held by people living outside of the city boundaries. Less than 2,000 residents (5 percent of the population) live and work in Lake Oswego, a decrease from almost 25 percent in 2002. The largest employers in the area are the Lake Oswego School District and the City of Lake Oswego.

Lake Oswego is considered one of the most affluent residential areas in the Portland region. The median household income in 2012 was $83,644, a 16 percent decrease from its 2000 figure of $99,006. Its per capita income in 2012 was $33,960, the second highest in the metro region. The city has over 15,000 housing units, of which 87 percent were built after 1950. Lake Oswego had the highest median home value in the region in 2012 with $520,081, an increase of 35 percent from $383,831 in 2000. The actual assessed value per household in 2012 was $688,685, substantially higher than any other city in the metro region.

About 66 percent of residents have an educational attainment of a bachelor’s degree or above, the highest of any other city in the region. Lake Oswego schools rate among the best in the state (We Love Lake Oswego, 2012). The Lake Oswego School District operates nine elementary schools, two junior high and two senior high schools. In addition to the public schools, there are five other private schools in the city.

Lake Oswego has many amenities, including a city-owned sports center, 18-hole golf course,
indoor tennis center, and outdoor amphitheater. There are 22 city parks and 14 natural area parks, totaling over 600 acres of parks and open space.

Revenue
For the Fiscal year 2013-14, Lake Oswego’s total revenue resources are $422.4 million. Consistent with the state as a whole, the three largest funding sources for the city are intergovernmental revenue (16 percent), transfers (23 percent), and other funding sources (26 percent). A portion of the transfers go to three special revenue funds: the Capital Reserve Fund, the Library Endowment Fund, and the Adult Community Center Endowment fund. Other funding sources include bond proceeds and interim construction financing for infrastructure projects, as described further below. Property taxes contribute eight percent of total revenues and 20 percent of total operating funds.

The transfer and intergovernmental budgets see large increases due to the Lake Oswego-Tigard Water Partnership Project (LOT), which is entering construction phase this year. The project will increase system capacity to deliver high-quality drinking water from the Clackamas River to the communities of Lake Oswego and Tigard.

Expenditures
Lake Oswego operates on a “balanced budget” and therefore has expenditure resources equivalent to revenue ($422.4 million). The contingency and ending fund balance for 2013 is $100 million. These are funds for emergencies or unexpected outflows. These funds will transfer to next years 2014-15 budget.

With $69.1 million, the FY 2013-2014 general fund is a major portion of the City’s general operating budget. The general fund covers many of the city’s departments including the City Manager’s Office, City Attorney’s Office, Finance, and Human Resources. It also funds governmental services including the library, municipal court, parks and recreation, planning, police, and fire.

The city’s largest operating expense is personnel service, which includes employee salaries and benefits. Personnel services expenditures accounts for $42.7 million of the city’s budget. Material and Services account for $26.9 million of Lake Oswego’s expenses. This operating expense covers office supplies, development and training, and bond sale expenditures. This category now also accounts for internal fees for services like repairs and maintenance costs, previously covered through transfers.

Other expenditures include the citywide debt service budget at $32.7 million, the transfer expenditure of $98.5 million, and capital overlay at $121.5 million. The LOT accounts for the majority of spending on capital projects and transfers, including $112 million of the City’s capital budget. There was over a 100 percent increase in the City’s overall budget from 2012-2013 Fiscal year due to this project.
The adopted fiscal budget includes expenditures for accomplishing the priorities established by the Action Plan of 2013. Accordingly, funds have been allocated for technical assistance, engineering and planning, and street maintenance. In addition, City Council also set priorities for the 2013-2014 budget, including initial funding for the South Shore Fire station and a new or improved Maintenance Facility. Council would also like to see staff propose a timely and available funding source for a $1.3 million “rebate” to utility customers to alleviate high summer water bills. Of particular interest to the community, council, and staff is the condition of Lake Oswego’s streets and roadways and backlog of unfunded pathway projects. A major priority for the city is to bring an average Pavement Condition Index for Lake Oswego at a 70 or minimum. Accordingly, the budget committee allocated some general funds to invest in street repairs and maintenance.

Special Revenue Public Art Funds
Lake Oswego governmental fund has nine special revenue funds that help finance at least 6.5 percent of the city’s current budget. These special revenue funds include the Trolley Fund, the Public Art Fund, the Tourism Fund, the Street Fund, the Bike Pathway Fund, System Development Charges Fund, Building Fund, Library Endowment Fund and the Adult Community Center Endowment Fund. Of the nine funds, four were added into the 2013-2014 Budget to help bring transparency to the City’s reserves. These four funds reallocated money from the general fund to a total of $9.3 million.

The Tourism and Public Art funds support Lake Oswego’s many art programs and festivals, including the Lake Oswego Arts Foundation. The Tourism fund allocated $125,000 to art financial support. The Public Art Fund, which was established in 1993, allocates 1.5 percent of the total construction cost of public facilities towards the purchasing and maintaining of art in the city. In the 2013-2014 budget, this fund allocated $102,822 towards public art.

Fiscal Capacity Limitations
Compared to Cornelius and Gresham, Lake Oswego’s limitations seem small. The city is able to provide high levels of service to its residents, including public art, a luxury that neither Cornelius or Gresham are able to provide. However, Lake Oswego does face some limitations. With a median resident age of 43.2, the city’s population is aging. It has been projected that the population over age 65 will increase to nearly one-quarter of all Lake Oswego residents (We love Lake Oswego, 2012). The aging population translates to slower population growth. Consequently, schools have projected a decrease in school enrollment over the next 10 years.

Furthermore, rising benefit costs and salary adjustments, including changes to PERS obligations and health insurance coverage for employees, have put pressure on the City’s operational budget. Health insurances costs are budgeted to go up by nearly 10 percent ($6.4 million) for the 2013-14 fiscal year. A 2.3 percent cost of living salary adjustment will increase personnel service to nearly $775,000. These increases in expenditures, which are partly due to the aging workforce, have added pressure to the city’s abilities to achieve long-term financial security.
In addition, the high cost of living in Lake Oswego has made it difficult for young working families to live in the city. This could indicate a need for smaller, more affordable housing that would attract families with school-aged children.

Case Comparisons

Fiscal Capacity
Among the three case studies in this analysis two - Gresham and Cornelius - fell into the Low Capacity Suburb category and Lake Oswego was classified as a High Capacity Suburb. The jump in total assessed value per household in FY 2009-2010 between Lake Oswego and the other two is significant, more than four times the value of either Gresham or Cornelius. Interestingly, Lake Oswego saw the largest increase in real total assessed value per household while posting the smallest increase in households between these three cities. Notably, Cornelius saw the largest gain in real assessed value between FY 1999-2000 and FY 2009-2010, going from just over $370 million to more than $511 million. Gresham posted the largest increase in households with the lowest gain in real total assessed property value combining to give this jurisdiction a negative change in total assessed value per household of more than 4.5 percent.

Revenue and Expenditures per Household
Based on the analysis of the case study cities, it is clear that Lake Oswego generates substantially more revenue than the other two cities in absolute terms (see Figure 30 on the following page). When accounting for the number of households in each city, the trend holds true. In four of the five revenue categories, Lake Oswego generates three to seven times more revenue per household than Cornelius and Gresham. Only in “Charges for Services” did Cornelius and Gresham have higher revenues per household than Lake Oswego. A possible reason for this disparity could be that Lake Oswego has more control over their utilities and is able to subsidize their residents than the other two. Conversely, Cornelius may have to charge extra because they contract with Hillsboro for water and sewer services.

In terms of expenditures, Lake Oswego appears to spend much more than Cornelius and Gresham on a per household basis in the transfers and capital categories (see Figure 31 on the following page). As discussed above, the City of Lake Oswego greatly expanded their budget and received external funding in the form of bonds and intergovernmental transfers for an infrastructure project, which accounts for some of this disparity. Lake Oswego also spends more per household on personnel, materials, and services, although the discrepancy is not as great as seen with revenues. This indicates that Lake Oswego has more ability to adjust their budget than Cornelius and Gresham.
Figure 30. Revenues per household for case study cities (FY 2013 – 14)

Top 5 Revenues (per Household)

- Property Tax
- Intergovernmental
- Charges for Services
- Transfers & Allocations
- Other Sources

Cornellus
Gresham
Lake Oswego

$6,685 $6,222
$1,999
$4,082
$1,592
$1,091
$510
$6,139
$1,581
$749
$953
$6,959

Figure 31. Expenditures per household for case study cities (FY 2013 – 14)

Top 5 Expenditures (Per Household)

- Capital
- Personnel Services
- Materials & Services
- Transfers
- Debt Service

Cornellus
Gresham
Lake Oswego

$1,708
$1,752
$1,445
$1,687
$1,581
$1,584
$1,472
$1,195
$1,187
$1,359
$573
$2,060
$6,198

$7,642

$599
Population Distribution by Race
Cornelius and Lake Oswego represent the range in the percentage of a city’s population that is non-White in the Portland region (Figure 32). In 2000 and 2011, Cornelius was both more racially diverse than Gresham or Lake Oswego and experienced the largest growth in its non-White population during this time period. Hispanics or Latinos have continued to make up the largest percentage of minority populations in each city. In 2011, the Hispanic population represented 50 percent of Cornelius's population, 19 percent of Gresham's population, and nearly four percent of Lake Oswego’s population. In Cornelius, Gresham, and Lake Oswego, Asians represent the third largest racial/ethnic group, with populations that represented two percent, four percent, and nearly six percent, respectively, of the total population.

Economic Indicators
Each of these cities posted marginal losses in jobs per capita between 2002 and 2011, with Lake Oswego losing the most at about three fewer jobs per 100 residents. The other two jurisdictions lost fewer than one job per 100 residents, a negligible amount. Overall, each of these places posted positive job growth, although Cornelius only added five more jobs compared to 2002. Notably each of these locations experienced positive growth in population with Cornelius posting the largest percentage growth with nearly 2,000 new residents between 2002 and 2011. While these jurisdictions did not show signs of huge gains in jobs they seem to be at least holding steady in their jobs to residents ratio.

Another notable trend is that the ratio of jobs held by residents within all three of the jurisdictions (i.e., Gresham, Lake Oswego and Cornelius) declined while the ratio of jobs held by people living outside of the area increased. Cornelius and Lake Oswego saw the largest
percentage decrease in jobs held by residents (28 and 23 percent decrease respectively) while Gresham saw the largest percent increase in jobs held by people living outside the area (17 percent decrease).

**Percentage of Families Living in Poverty**
The percentage of families living in poverty is higher in Cornelius and Gresham than in Lake Oswego. In 2011, the percentages of families living in poverty were 15.8 percent in Cornelius, 13.5 percent in Gresham, and 4.4 percent in Lake Oswego. The range in the percentage of families living in poverty in these three cities was much smaller in 2000; the percentages of families living in poverty were 10.8% in Cornelius, 8.4% in Gresham, and 2.3% in Lake Oswego. Of the three cities, Lake Oswego experienced the largest growth in percentage of families living in poverty (91.3%). In both 2000 and 2011 the percentage of families living in poverty in Gresham and Cornelius were above the regional average, while in Lake Oswego the percentage of families living in poverty was below the regional average in both 2000 and 2011. The percentage of families living in poverty in Lake Oswego grew closer to the regional average from 2000 to 2011 while in Cornelius and Gresham the percentage of families living in poverty grew further from the regional average.

**Findings**
Our analysis, which is consistent with public perception, shows that Lake Oswego is a high-property-value suburb with high fiscal capacity and positive socio-economic conditions (educational attainment, median income, etc). In contrast, Cornelius and Gresham are low-property-value suburbs with lower fiscal capacity and more negative socio-economic indicators (i.e. percentage of households in poverty).

Although these cities are defined more by what differentiates them, they have a few important similarities. First, all three cities are primarily residential and therefore depend mainly on residential rather than commercial/industrial property taxes. For example, 90 percent of Gresham is zoned residential. Second, all three are heavily reliant on property taxes to pay for City services such as police, fire, parks, and libraries, which are funded through the general fund. For example, in Cornelius and Gresham, property taxes account for almost half of the general fund revenue sources.

The case studies indicate that cities with higher valued properties such as Lake Oswego are able to generate higher property taxes leading to higher levels of services. In contrast, cities such as Gresham and Cornelius with a modest housing stock (in terms of assessed value) are unable to garner the same amount of property taxes and are thus unable to provide the same levels of service as their wealthier counterparts. In addition, our analysis shows that Oregon’s current property tax system, which caps annual property tax increases at three percent, seriously hinders all cities’ abilities to generate the revenue needed in order to provide essential services.
The median household income of the High Capacity Suburbs is over 31 percent higher than the Low Capacity Suburbs. Over the past decade, the assessed value per household in High Capacity Suburbs increased more than the value in the city of Portland and the Low Capacity suburbs. The cities with the highest median home values and those that experienced the highest percent change in median home values between 2000 and 2011 were overwhelmingly High Capacity Suburbs. However, the region's population has been increasingly living in Low Capacity Suburbs, which saw larger absolute increases in the percent of families falling below the poverty level.

High fiscal capacity roughly correlates with positive demographic and socioeconomic indicators such as higher employment, income, and education attainment. The share of the population having attained a bachelor’s degree or higher in 2011 was 41 percent in High Capacity Suburbs compared to 27 percent in Low Capacity Suburbs. Low Capacity Suburbs seem to be seeing slower job growth. In terms of land use, Portland had a slightly higher population density than the Low Capacity Suburbs, and the High Capacity Suburbs had a significantly lower population density than either of the other two groups. This suggests that High Capacity Suburbs could be using growth management controls to limit density.

In addition to city and county governments, special purpose districts serve as viable and important mechanism for providing services to residents. They may be useful in reducing disparity, as they are not bound to city boundaries and politics to the same degree. Only 3 percent of property taxes in Multnomah County went to special districts in 2011-12, compared to 19 percent for Clackamas and Washington counties. This shows that fiscal capacity of special districts in Clackamas and Washington counties is substantially tied to property values, although not to the same degree as it is for city governments. This also suggests that special districts may play a more important role in Clackamas and Washington counties, which are more rural and may benefit more from the economies of scale that service districts can provide to large areas with fragmented and smaller municipal governments.

A focused analysis of school districts found inequity in outcomes throughout the region. School quality, however, is not correlated with per pupil spending as may be expected, but there appears to be a relationship with local source revenue (property tax) per student. While not linked directly to the funding for educational services, this indicator reflects community capacity to provide conditions that support higher student performance. Generating more revenue for schools through property taxes will not necessarily improve student outcomes, but increased assessed value will reflect and reinforce changes at a community level in ways that affect schools.

All three cities are primarily residential and are heavily reliant on property taxes to pay for city services such as police, fire, parks, and libraries. For example, in Cornelius and Gresham, property taxes account for almost half of the general fund revenue sources. In addition, our analysis shows that Oregon’s current property tax system, which caps annual property tax increases at three percent, seriously hinders all cities’ abilities to generate the revenue needed to provide essential services.
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- 2007-2011 American Communities Survey
- 2011 Annual Surveys of State and Local Government Finances
- Local Governments by Type and State: 2012
- Public Elementary-Secondary Education Finance Data, FY 2010-11, released 2012

### Appendix A: School District Indicators

<table>
<thead>
<tr>
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<td>9</td>
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<td>Reading 78, Math 78</td>
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<td>Reading 74, Math 69</td>
<td>75</td>
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<td>16</td>
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<td>88</td>
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<td>Reading 62, Math 57</td>
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<td>20</td>
<td>Reading 61, Math 69</td>
<td>Reading 53, Math 61</td>
<td>85</td>
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<tr>
<td>North Clackamas</td>
<td>$4,205</td>
<td>16</td>
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<td>79</td>
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<td>Oregon City</td>
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<td>20</td>
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<td>Reading 71, Math 69</td>
<td>88</td>
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<td>Canby</td>
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<td>Reading 62, Math 56</td>
<td>82</td>
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<td>Reading 57, Math 66</td>
<td>Reading 63, Math 63</td>
<td>91</td>
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<td>22</td>
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<td>22</td>
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<td>25</td>
<td>Reading 51, Math 67</td>
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*Top ten in each category are highlighted in pink. Sources: US Census Bureau and Greater Portland Pulse, citing Oregon Department of Education*
Opportunities for the Region

Through examination of powers granted by the Metro charter and interviews with current Metro staff we conclude that Metro has limited power and resources to deal with differences in fiscal capacity at this time.

Section 1 examines what Metro can do within its current powers in relation to generating revenues and affecting the distribution of funding under its control. In Section 2 we examine short-term strategies that may be available to Metro under its current powers. Lastly, in Section 3, we outline efforts that will require a collaborative effort among local, regional, and state entities to be implemented, but could serve to increase fiscal capacity for cities and counties within Metro’s jurisdiction.
**Section 1: Charter Powers**

Metro’s Charter grants it powers over matters of metropolitan concern. Chapter 2, section 4 of the Charter states that:

> “Metro has jurisdiction over matters of metropolitan concern. Matters of metropolitan concern include the powers granted to and duties imposed on Metro by current and future state law and those matters the Council by ordinance determines to be of metropolitan concern. The Council shall specify by ordinance the extent to which Metro exercises jurisdiction over matters of metropolitan concern.” (Metro Charter, Chapter 2, section 4, 1992(2000))

The extent to which matters are within Metro’s jurisdiction are based on duties identified to be of regional concern. Section 6 of the charter explains other functions Metro can assume. These powers are limited to the “acquisition, development, maintenance and operation of” a few specific services. These are: the Portland Zoo, the Convention Center (and other “exhibition, sports, entertainment, and spectator facilities”(Metro Charter, 1992, Section 6)), solid and liquid waste disposal and facilities, parks and open spaces significant enough to be of metropolitan concern, and dissemination of data. Lastly, Metro is allowed “any other function required by state law or assigned... to Metro by the voters” (Metro Charter, 1992, Section 6).

Under Section 7 of the charter Metro has the power to undertake other functions not listed above or in Section 5 by ordinance if the function is deemed a metropolitan concern, reasons are given for its appropriateness for Metro, and the Council approves it. Section 7 also details how Metro can assume control of local government functions through either a majority vote of the Metro Policy Advisory Committee (MPAC) or voter approval. There are no limitations listed in the charter about which functions Metro can assume, although Section 7 explicitly requires Metro to seek the advice of MPAC before assuming these functions.

**Generating Funds**

Resources to meet Metro’s obligations and needs are derived from three primary sources: the beginning fund balance, current revenues and interfund transfers. The beginning fund balance consists of resources carried forward from previous fiscal years, including proceeds from voter-approved bonds such as the Natural Areas and Oregon Zoo Infrastructure and Animal Welfare, reserves for specific purposes (e.g., self insurance, debt reserves) and monies used for cash flow.

Current revenues are those earned from Metro operations or taxes levied during the fiscal year. The principal sources of current revenues are user fees and charges from individuals and organizations that pay to use Metro facilities or buy its services (Metro Financing and Funding, 2013). Metro budgets its resources in separate and distinct funds. Interfund transfers are transfers between funds that pay for internal services provided directly by one department to another or indirectly on a cost-share basis as determined through the indirect cost allocation plan.
The General Fund is Metro’s discretionary funding source, which, currently is the only source of funds Metro could directly use to target fiscal capacity differences outside of securing grants. It includes three important discretionary revenue sources: property taxes, excise taxes, and interest earnings. The general fund or discretionary spending fund, are the resources that the Metro Council can direct by choice to any general purpose. Property taxes are levied for both operations and general obligation debt service (Metro Financing and Funding, 2013).

However, less than one-third of Metro’s revenue comes from property taxes, and most of the funding that is received from property taxes is dedicated to projects that have been previously approved by Metro voters (Metro and Your Property Taxes, 2013). Users of Metro facilities and services pay the excise tax. It is estimated to raise $15.3 million in FY 2013-14 (Metro Financing and Funding, 2013). In FY 2013-14 other revenues include $3.8 million in donations; $700,000 in projected interest earnings and about $383,000 in a variety of other miscellaneous revenue categories (Metro Financing and Funding, 2013).

Metro has the ability to generate funds from several sources. Section 10 of the charter states:

“Except as prohibited by law or restricted by this charter, Metro may impose, levy and collect taxes and may issue revenue bonds, general and special obligation bonds, certificates of participation and other obligations.”

This includes the right for Metro to create a sales tax. There are voting requirements for this revenue raising as seen in Section 11 of the charter:

“All ordinance of the Council imposing broadly based taxes of general applicability on the personal income, business income, payroll, property, or sales of goods or services of all, or a number of classes of, persons or entities in the region requires approval of the voters of Metro before taking effect.”

In Section 12 the charter explains that any ad valorem property tax requires voter approval. The charter does not impose a limit on the amount of taxes and bonds Metro can levy or raise. However, as explained below, there is an expenditure cap on these revenue sources.

**Limitations on Spending**

Although Metro has the authority to collect revenue from taxes there are limitations built into the charter with caps on the maximum amount of revenue that can be utilized for expenditures per year. Section 14 explains that:

“Except as provided in this section, for the first fiscal year after this charter takes effect Metro may make no more than $12,500,000 in expenditures on a cash basis from taxes imposed and received by Metro and interest and other earnings on those taxes.”

This limit is set to increase by the Consumer Price Index each year (Metro Charter, 1992,
Section 14. This limit does not apply to fee income that Metro generates from other service operations, such as the zoo, or to taxes approved by voters, like the Metro Greenspaces levies.

An amendment to the charter could be set forth to increase the spending limitations. Amending the Metro charter requires a vote of the people; the Metro Council, which would define the specific language of the amendment and the ballot title, can initiate the amendment. The amendment would then be placed as a question on the ballot. Citizens may also propose changes and gather the required signatures for appearance on the ballot to initiate amendments to the charter. (A. Cotugno & A. Shaw, personal communication, 2013) (Metro, Resolution No. 00-2929A, 2000)

Section 2: A Short-term Strategy
Fiscal Capacity as Criterion for Project Prioritization
Metro is very limited in its powers to affect fiscal capacity. However, Metro currently controls distribution of several regional funding sources that are outside of the property tax limitation structure, such as the gas tax used for transportation projects, the Natural Areas Bond Program, and the Construction Excise tax. Directing a greater proportion of these Metro-controlled funds to areas with limited fiscal capacity could relieve strain on local governments, enabling them to shift their limited funding elsewhere. In addition, if a mechanism was implemented for reducing local match funding requirements for local governments with limited fiscal capacity, this could also address relative strain on jurisdictions.

An example of where fiscal capacity criteria could be implemented is with the Regional Flexible Funds (RFF), which has well developed prioritization criteria and attracts significant interest because of the range of projects funded. The Community Investment Fund of the RFF encourages a “topically or geographically focused impact rather than an array of disconnected projects” (Metro, 2012, Page 10) and among it’s eleven prioritization criteria includes “[projects that] offer economic opportunities for [Environmental Justice] EJ/underserved communities,” and projects that, “...reduce impacts to EJ communities.” This proposal would incorporate differences in fiscal capacity as a specific criterion for project selection. This is functionally similar to the current policy to “Recognize the difference in transportation infrastructure investment needs relative to an area’s stage of development (developed, developing, undeveloped)...” (Metro, 2012, pg. 12)

One of the “Recurring Process and Administrative Policies” used by the Joint Policy Advisory Committee on Transportation in recommending projects for funding is to, “Select projects from throughout the region; however, consistent with federal rules, there is no suballocation formula or commitment to a particular distribution of funds to any sub?area of the region.” (Metro, 2012, pg. 8) Inclusion of fiscal capacity criteria should not mandate that funds be spent in communities with lower capacity, but rather would improve the scoring for projects in those communities alongside existing criteria.
Consideration would also need to be given to the impact of local match requirements; project sponsors with limited fiscal capacity would be less able to raise local match funding, and focusing more demands for local match funds into such areas may only exacerbate local financial challenges. One possible remedy, which could be examined with or without the prioritization criteria above, would be a reduction in local match requirements, or local match on a sliding scale based on fiscal capacity, to the extent compliant with federal requirements.

Because transportation policy is set by the Metro Council, which is elected by the people, and the Joint Policy Advisory Committee on Transportation (JPACT), which is comprised of 17 locally elected, citizens, and state agency officials, the addition of fiscal capacity criteria would need the agreement of the majority of the JPACT membership. However, the Regional Flexible Funds only comprise 4% of regional transportation funding, meaning that to achieve a significant effect similar fiscal capacity criteria would likely need to apply to other transportation funding processes as well.

Other regional funding pots have different decision-making mechanisms, but many could be modified to include fiscal capacity criteria if they don’t already; Metro’s Community Planning and Development Grants already include fiscal capacity as one of many criteria, for example (A. Shaw, personal communication, 2013). Before adopting a fiscal capacity criterion, it would be important to explore the ways that this might affect other regional and local policy goals as a means for guarding against creating unintended and undesirable consequences.

Section 3: Longer-term Actions

While there are limited strategies that fall within the powers granted by the Metro Charter, several long-term strategies may be able to influence, initiate or further the process. Many of these strategies have been addressed in previous sections. This section serves to identify how these strategies would operate if they were implemented.

Regional Service Consolidation and Jurisdictional Annexation.

Other regions have explored and event utilized consolidation of services and/or jurisdictions, formation of multi-jurisdictional special service districts, such as fire or parks districts, and the merger of cities or cities and counties to gain greater efficiency in and lower costs for service provision. Creating a larger geographic tax base for the service would be another net effect of implementing this strategy.

Only the state has the authority to enable or require consolidation or annexation; it is not something Metro can or should pursue on its own. Rather, if consolidation/annexation were to occur it would need to be as part of a larger regional conversation and in partnership with local jurisdictions and service providers. Metro’s role could be to gather stakeholders and facilitate the conversation. No increase in Metro’s powers or fiscal obligations would be
required, and all subsequent actions and implementation would need to occur with the consent of current service providers.

Because cities are all-purpose institutions, they are generally better positioned to balance all the needs of local residents. For this reason, it may be advantageous to encourage jurisdictional mergers or annexation instead of forming special service districts, which tend to give minimal consideration to their impact on taxing capacity relative to other needs of the community (A. Cotugno, personal communication, 2013).

**Tax Base Sharing**
Utilizing the precedent set forth by the Minneapolis-St-Paul region, growth in commercial, industrial, and high-value residential components of the regional property tax base could be shared among local governments.

Applied here, Metro, in cooperation with local jurisdictions, would select a percentage of the commercial, industrial, and high-value residential tax bases to be placed into the area-wide funding pool. Under a formula to be determined, a percentage of the growth in the commercial and industrial tax bases could be shared. The distribution of the pool would be based on criteria developed by the parties to the agreement, with fiscal capacity as a potential criterion. If there is interest in pursuing this, it would have to be regarded as a long-term strategy. Significant and sustained political support would be required, along with careful analysis and forecasting.

**Property Tax Reform**
As mentioned previously, property taxes are a main source of revenue for local jurisdictions. With measures 5 and 50 “locking in” inadequacies in local property tax bases, property tax reform could loom large as an essential target for a collaborative regional approach to the State. Oregon’s current property tax system fails to sustain service levels approved by voters. During the past twenty-five years, increases in the cost of local government services, coupled with rising demand for those services, have run up against inflexible Constitutional limits on levy increases, tax rates set in 1990, and on assessed values of property pegged to 1995 (City Club of Portland, n.d.).

**Section 4: Conclusion**
Metro is the only directly elected regional government in the United States. There are few case studies and best practices to draw examples from for addressing fiscal capacity at a regional level. At the current time Metro is limited to addressing differences in fiscal capacity among jurisdictions. However, Metro is a leader in regional government practices and there is an opportunity to create an innovative approach to assisting with differences in fiscal capacity at the regional scale because of it.
References:


Metro. (2000). Resolution No. 00-2929A.


Observations

Metro COO Martha Bennett asked us to explore the following question:

“The economic gaps between the communities that are prospering in the region and those that are struggling is growing. If Metro wanted to use its authorities to help mitigate that gap, what would be the best tools to use? Metro has categorized its tools in the following general categories: invite (convene); inspire; teach (research and model); provide financial incentives; provide as a direct service; and regulate.”
During the course of this term, we have discovered the following:

1. **Metropolitan regions share a common fate.** There is mounting evidence pointing to the metropolitan, not city or county or even state scale as the major building block for the US economy. Furthermore, there is also evidence that demonstrates that jurisdictions in a metropolitan economy are more interconnected than previously thought. Simply put: everyone does better when no one is left behind. The gap between economically secure and economically struggling jurisdictions is and should be of concern to all those jurisdictions, institutions, and individuals concerned about the long-term economic prosperity for both the metropolitan area and their own more local interests.

2. **Measures 5 and 50 locked in local municipal public finance to the pattern of capacities present at the time they were created.** Stated another way, measures 5 and 50 mean that jurisdictions lacking fiscal capacity before the passage of those measures are fated to always lack needed fiscal capacity because of those measures. They cannot “grow” their way out of the bind they’re in.

3. **Metro is very limited in what it can do to unilaterally address issues of fiscal capacity among jurisdictions in the metropolitan area.** It does not have the capacity to regulate, provide, or incent the development of new means for ensuring that jurisdictions are capable of meeting their needs on their own, either through unilateral or shared redistributive means.

4. **Addressing issues associated with fiscal capacity needs to occur through a collaborative process involving all of the jurisdictions in the metropolitan area.** The first step is the development of a shared understanding of the fiscal constraints facing area jurisdictions and, most important, the likely extrajurisdictional impacts of inadequate local fiscal capacity on neighboring jurisdictions and the long term health and vitality of the metropolitan economy shared by all.

5. **This is not a short-term, easily solved problem.** It needs to be framed by a larger concern for a livable, prosperous, sustainable, and resilient region, one where local conditions are important and the value of a prosperous region is understood both locally and regionally. We have done this before. **We can do it again.**