LEAGUE OF OREGON CITIES

FISCAL CHALLENGES TO THE SUSTAINABILITY OF OREGON'S CITIES

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I. FOREWORD

While cities in other U.S. states have access to income and sales taxes as a source of revenue at the local level, Oregon cities' primary source of tax revenue has traditionally come from property taxes. During the 1990s, Oregon voters approved two property tax limitation measures (Measures 5 and 50) which have limited this important revenue source for Oregon cities causing fiscal concern for nearly all Oregon cities.

Measures 5 and 50 ("M5" and "M50") came into effect in 1992 and 1998 respectively. Given the diversity among Oregon's cities in terms of geography, population, economy and civic infrastructure, the effects of this statewide policy have led to a diverse range of outcomes in cities across the state that can perhaps only be truly appreciated at the local level. M. Ray Perryman, a Texas based economist, reiterates this idea in his 2006 testimony regarding property tax limitations in Texas when he states that "Cities and counties vary markedly in their characteristics, their needs, and their capacity to generate tax revenue under various [tax] structures, [and] the level of needed resources is best determined on a local basis."[1]

Diversity in city characteristics might be based on population, geography, level of business development, infrastructure, or other such traits. While all cities share common traits and needs such as public safety, public works/roads, needed capital investment, and/or parks/library/cultural expenditures, it is often the differences among cities that determine what level of each need they will require at any time. While cities often have widely differing characteristics and needs, when it comes to property taxes, nearly all Oregon cities are similar in terms of their capacity to generate tax revenue under a tax structure such as Oregon's, where property values are constrained and a permanent millage rate has been fixed. As cities look for replacement sources for revenues lost due to property tax constraints, many are focusing on utility fees, franchise fees, charges for service, and enterprise funds such as sewer and water. Cities with a high level of tourism might focus on transient lodging receipts while cities with significant business activity might focus on business taxes as a source of revenue replacement. The primary problem with seeking alternate sources is that the revenues they generate often cannot be used for general fund purposes.

Some cities had the flexibility to adapt to M5/M50 revenue losses and found innovative ways to restore lost revenue flows with other sources of funding such as those mentioned above. Cities that are located in urban areas benefited from new construction from growth which expanded their tax base despite the limitations of M5 and M50. The city of Portland, for example, benefited from new construction and increases from other revenue sources, allowing the city to increase city government expenditure per capita.

[1] Source: Invited testimony of M. Ray Perryman, PhD regarding proposals to limit local tax revenue growth or appraised values before the task force on Appraisal Reform, Texas, 2006, p.5.

Other cities such as Scappoose, which experienced 65 percent population growth from 1990-2006, were faced with declining city government expenditures per capita over the same time period. In Scappoose expenditures for capital projects was cut, with the exception of a large capital project in fiscal year 2003, to allow other programs to continue. These reductions in tax revenue and expenditures can lead to increased long run costs for cities, from either having to replace infrastructure that was not maintained due to reduced maintenance budgets, or from paying high maintenance costs for infrastructure that needs to be replaced.

These inefficiencies can be costly in many cases and ultimately can dampen a city's or region's ability to promote sustainable long run economic growth. Perryman discusses these types of effects in his article "Capping Prosperity" which appeared in several Texas newspapers in 2005.[2]

Perryman identifies other negative effects of property tax limitations on a city's economy as well. He states that "revenue limitations do not account for demographic shifts, industrial development, and other factors that legitimately impact the demand for public services. In particular, they constrain the capacity of high growth regions to meet public service and expanded infrastructure needs."

Oregon has averaged 1.7 percent growth in population since 1985. Similarly, increased industrial development means new construction, which also means more demand for public services. Though many forms of new construction in Oregon are not exempt from the M5 and M50 constraints initially, and the city tax base is expanded, this does lead to a change in the property ratio which automatically reduces the assessed value of property, and all constraints apply in the next fiscal year to the property.

Another example of the negative effects of property tax limitations is based on the idea that real estate is cyclical in nature. Tax revenues are often constrained during an up market when the economy is expanding, and the base is reset in a down market when property values fall. This again constrains the ability of local governments to generate revenue for public services in the long run. When cities are unable to generate revenue for public services, there is increased pressure on the local economy and its potential for sustainability.[3]

Given the fiscal conditions created by M5 and M50, what strategies have Oregon cities used to respond? What is their current financial condition and what is forecast for their future? To learn about how cities are faring, the League of Oregon Cities (LOC), with support of the Oregon City/County Management Association, undertook a study of financial issues in cities across the state. Its focus was on city services like police, fire, ambulance, parks, libraries, and planning that are considered "basic" services and are

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[2] Source: "Capping Prosperity—Appraisal Caps Would Limit Governments' Capabilities," MywestTexas.com, March 17, 2005, www.mywesttexas.com.

[3] Source: "Invited testimony of M. Ray Perryman, PhD regarding proposals to limit local tax revenue growth or appraised values before the task force on Appraisal Reform," Texas, 2006, p.7.

often funded through the property tax, the major discretionary source of city revenue. The goal of the study was to forecast what city services would look like at the end of the decade if revenue and expenditure structures and constraints remain unchanged. The original report initiated in 2001 was developed under the guidance of a 17-member Steering Committee (see Appendix A). The committee was assisted by a consultant team of Barney & Worth, Inc. and E.D. Hovee & Co., and by staff of The City Center at the League of Oregon Cities. The updated forecast is contained in the report that follows: "Diminishing Returns: Oregon Cities' Struggle to Afford Basic Services."

This study will proceed as follows:

- In Section II, the executive summary provides an overview of the findings of the study, a brief forecast for Oregon cities, and next steps for the League of Oregon Cities and Oregon's cities.
- The second half of the executive summary will consist of a review of Oregon's recent economic environment from 1990 to present.
- Section III discusses how Oregon cities' finances have been affected by property tax limitations and other factors since 1990 and what they are doing to respond to these pressures.
- The results in this report are based on the LOC Financial Forecast for Oregon Cities Survey of all Oregon cities.
- The results for Oregon cities are then compared to national city averages as reported in the National League of Cities' annual City Fiscal Conditions Report.
- Section IV consists of a statistical analysis of the change in fund structure for a sample of Oregon cities.
- Finally, Section V is a forecast for Oregon cities in terms of economy, property taxes, other revenue sources, city costs as well as the expected affects on costs from demographic trends, and future services.

II. EXECUTIVE SUMMARY

Summary of Results

The results of the original 2001 Diminishing Returns study demonstrated that Oregon cities would find themselves under increasing financial pressure during the first decade of the new millennium. The main cause identified for this financial pressure was the constraint placed on the vitally-important municipal revenue source—the property tax. The property tax limitation measures approved by voters in the 1990s have curtailed what had been a dependable financial foundation for most cities. Another cause identified for this financial pressure was the economic recession of 2001. Since the 2001 report, cities have increasingly worked to meet these challenges through cutting programs and looking for alternative revenue sources. The financial condition of most Oregon cities deteriorated in the latter half of the 1990s—despite a generally strong economy. The recession of 2001 also had an adverse affect on city financial conditions. Since 2003 the economy has generally been in a state of recovery and expansion.

Since the original study was conducted, prospects have changed in many cities. The general economy has steadily improved since 2003, making tax areas such as utility franchise fees and enterprise funds more stable. Population across the state has generally grown or remained constant. Despite these positive signs, since the original study Public Employees Retirement System (PERS) has changed the formula which they use for calculating benefits and in general this has lead to increased costs for cities. Federal challenges to city franchise authority for telecommunications companies have also affected financial forecasts.

In addition, four of the major signals of property tax income in the future have continued to show signs of a negative future. In surveys of Oregon cities' property tax returns, the number of cities not increasing their assessed value by three percent peaked in 2004 and has since diminished, yet the dollar loss due to the difference between real and assessed property values has consistently increased. The number of cities in Measure 5 compression has also increased, as has the dollar loss attributed to compression. There has been a steady rise in the revenue lost due to property tax exemptions, and the negative effects of the property change ratio have been increasing. While this may not mean impending financial doom for cities, it shows there will be increased difficulty in obtaining property tax revenue, and finding other funding sources is essential.

Cities have dealt with providing lower levels of services as well as providing unfunded mandated services and projects. Since the previous report, multiple strategies have been used to meet demands. However, there is no one silver bullet and each city needs to come up with a way to provide funding that works for them. In general:

- Property tax revenues—the foundation for most city budgets—were negatively impacted after 1997 and, when adjusted for population growth and inflation, are on average approaching a point of no growth.

- A growing number of cities will be affected by property tax constraints, including cities that have not been affected in the past. This is occurring in two ways: property values are not growing the full 3 percent limit provided by Measure 50 despite the greater than 5 percent growth occurring in real property values, and cities are losing property tax revenue because of Measure 5 limits.
- The revenues which have most often helped offset tax losses in the 1990s—utility franchise fees—have been clouded in litigation.
- The forecast is unclear for many other possible replacement revenue options—business license fees, transient lodging tax, sales tax, gas tax, and state-shared revenues. Although the state has recently had a recovering economy, it is expected to soften in the near future.

As mentioned above, cities that performed better financially in the 1990s had been those experiencing growth in their assessed value (through new construction), and those cities benefiting from diversified (and more elastic) sources of revenue that make them less reliant on the property tax. Many such cities are located in urban areas where economic growth spurred new construction in the 1990s and added to the cities' assessed values despite the property tax limitations. For these cities, the strong economy has masked the effects of the property tax limitations.

In the future, cities with growing assessed value and diversified revenues will continue to do better than their peers. Currently, fewer cities are experiencing growth in assessed value due to new construction. Even with new construction, over the long term property value can only grow by 3 percent, which is much lower than what has been seen on the real estate market and could thus restrict the flow of revenue to cities. The post 2003 rebound in the economy has, however, helped cities in such areas as transient lodging taxes and/or business license taxes/fees.

Forecast for City Revenues

- *Property Taxes*: The expectation is no growth or low growth when measured on a per capita basis and adjusting for inflation.
- *Licenses and Permits:* These make up a small share of city revenues and, although increases are expected, the contribution toward lost property tax revenues will be minimal.
- *Intergovernmental Grants:* Access will be determined at the local level. Managers who overcome difficult application processes will have opportunities for funding.
- *Special Assessments/Franchise Fees/Charges for Service:* These make up a large share of government funds and the general fund in particular. Increased fee levels and rates will provide the most significant portion of restored revenue lost to property tax decreases.

- *General Fund:* With cities' abilities to increase fee levels and rates, many should be able to restore or maintain their general fund tax base.
- *Enterprise Funds:* Though not available for the general fund, these revenues should continue to increase significantly statewide as system replacement and operating costs continue to rise.
- *Gasoline Tax:* Growing numbers of cities are adopting gas taxes.
- *State-Shared Revenues:* State gas tax dollars are shrinking on a per capita basis; liquor taxes are rising; 911 tax revenues are flat; and cigarette taxes are down.
- *Liquor and Tobacco Taxes:* Growth is expected in the coming year followed by flattening and then a slight decline.
- *Transient Lodging Taxes:* Dependent on the economy and tourism, moderate to low growth is expected.
- *Business License Taxes/Fees:* Dependent on the economy, moderate to low growth is expected.

Forecast for City Expenditures

Along with the decline in revenues, Oregon cities are threatened by many pressures that are creating unprecedented costs for municipal budgets. These include:

- The susceptibility of Oregon's economy to economic downturns.
- Increases in total personnel-related costs, including required pension contributions and health benefit costs, which are both increasing much faster than inflation. This includes PERS benefits.
- Environmental mandates taking effect in more communities.
- Growing population and an increasing demand for services.
- Infrastructure expenses required to meet state and federal mandates.
- Uncertain results from mandatory binding arbitration for public safety employees.
- The end of COPS grant funding in some cities.
- Unquantifiable expenses related to homeland security and terrorism response.

Since the last report, city revenue trends and pressures on costs have continued to intensify and are projected to continue to do so. Although there has been some help from an improved economy, property tax limitations still greatly restrict city revenues. This will likely lead to further erosion of city finances and undermine the ability of cities to sustain local services and enhance quality of life.

Next Steps for LOC and Oregon Cities

The original study and this update confirm that Oregon cities face serious financial challenges in the coming decade. To address these challenges, the League of Oregon Cities and the Oregon City/County Management Association should continue their plan to:

- Communicate cities' financial condition to legislators, community partners and citizens.
- Continue to help communities evaluate financial conditions with regard to the findings of this study.
- Work with community stakeholders to prepare for the likely outcome of reduced local services and diminished community quality of life, and work to combat it.
- Proactively work with community and legislative leaders to provide greater property tax revenue flexibility.

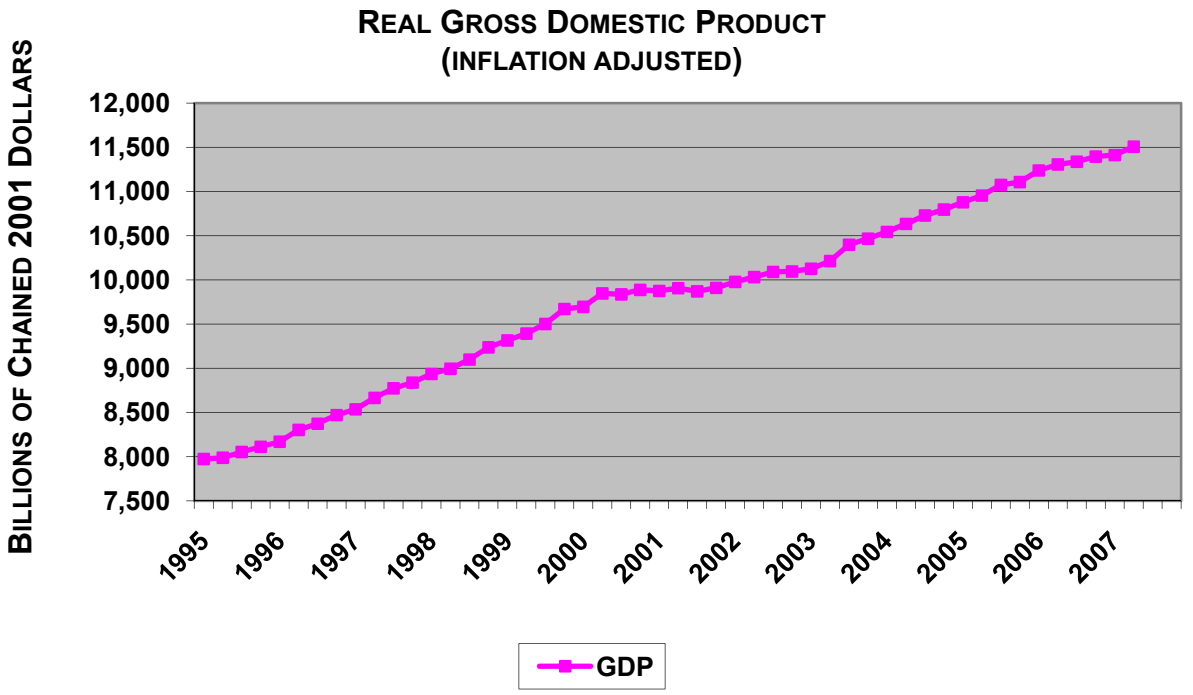
Section IV covers strategies in place and suggested in the previous report, as well as updated strategies and suggestions. The League of Oregon Cities maintains its "Community Distress Signals," outlined in Appendix C of this report, to help cities evaluate their financial conditions.

III. INTRODUCTION

Overview of the Oregon Economy (1990 to Present)

In general the national economy performed well during the 1990s. There was an economic recession in 2001 and since mid 2003 the economy has been in recovery. Regarding the recession of 2001, the National Bureau of Economic Research officially identified the business cycle upswing in March 2001 and the following decline in November of 2001.[4] The economic hardship of the turn of the millennium becomes more visible when looking at a larger time series set of gross domestic product (see figure 1).[5]

FIGURE 1



At the state level, Oregon's economic output as measured by gross state product (GSP) grew during the early 90s, slowed in the late 90s, and fell into recession between 2001 until approximately 2003. Since 2003, Oregon has been in a steady economic recovery in terms of GSP growth. This national and Oregon specific business cycle has been attributed to the technology sector bust and the fact that Oregon's economy, beginning

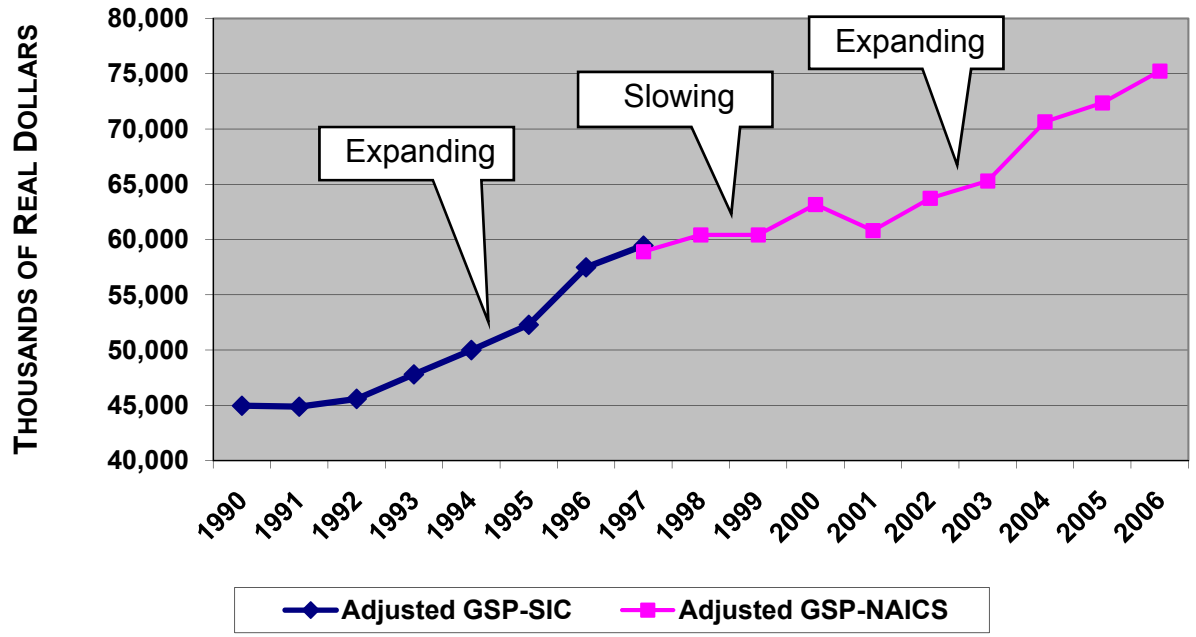
[4] Source: Public Information Office, National Bureau of Economic Research, Inc., 1050 Massachusetts Avenue, Cambridge MA, 02138, USA; http://www.nber.org/cycles/.

[5] Source: Bureau of Economic Analysis, RGDP, measured in billions of 2001 dollars, updated July 27, 2007.

in the mid 1980s has become more high-tech in general along the I-5 corridor as well as a few other regions including Southern Oregon and Bend. By 2001, one third of Oregon's manufacturing workforce was employed by high-tech manufacturing firms.[6] The fact that Oregon's economy included a larger tech component meant that it was more susceptible to volatility in the technology sector. This economic downturn, as outlined by Figure 2 below, coincides with a decrease in population discussed below.[7]

FIGURE 2

GROSS STATE PRODUCT
(INFLATION ADJUSTED)



Oregon's economic slowdown during this timeframe is also evident from the unemployment data. Over the last twenty years Oregon has suffered some of the highest levels of unemployment in the nation. Since 1997, Oregon's unemployment rate had been steadily rising above the national average. Since 2004 it has been converging toward the national average but is still more than a half of a percent higher

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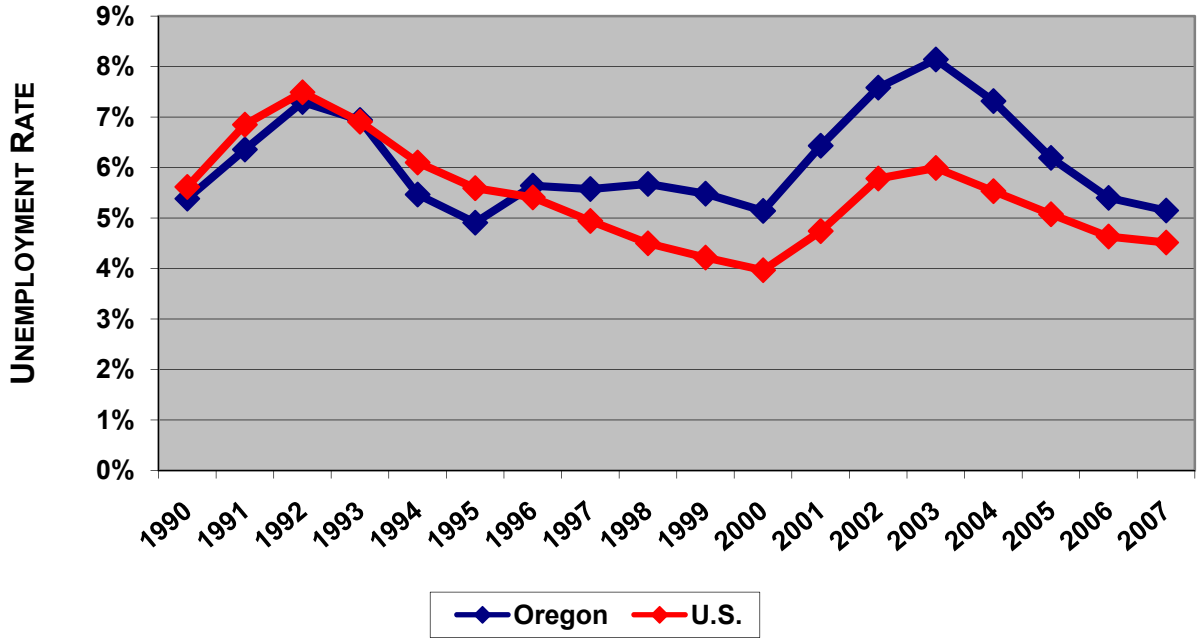
[6] Source: "Community Development Assessment for the State of Oregon – A Guide to Oregon's Community Development Environment," Community Development Department – Federal Reserve Board of San Francisco, 2004; www.frbsf.org/community/research/oregon.pdf.

[7] Source: BEA - regional economic accounts. There is a discontinuity in the GDP by state time series at 1997, where the data change from SIC industry definitions to NAICS industry definitions. This discontinuity results from many sources, including differences in source data and different estimation methodologies. In addition, the NAICS-based GDP by state estimates are consistent with U.S. gross domestic product (GDP) while the SIC-based GDP by state estimates are consistent with U.S. gross domestic income (GDI). This data discontinuity may affect both the levels and the growth rates of the GDP by state estimates. Users of the GDP by state estimates are strongly cautioned against appending the two data series in an attempt to construct a single time series of GDP by state estimates for 1963 to 2006. Industry detail note: NAICS industry detail is based on the 1997 NAICS. SIC industry detail 1987-1997 is based on the 1987 SIC. SIC industry detail 1963 to 1986 is based on the 1972 SIC.

than the national average. During the recession of 2001 through 2003, Oregon ranked first in the nation with the highest unemployment rate of all U.S. states.[8] Figure 3 below compares Oregon's unemployment rate to the national unemployment rate. Table A outlines Oregon's unemployment rate and national ranking from 1990-2007.[9]

FIGURE 3

UNEMPLOYMENT RATE



[8] Rankings exclude Puerto Rico and Washington D.C.

[9] Source: Bureau of Labor Statistics. Rate is an annual average from January through December except 2007, which is averaged from January through June.

TABLE A

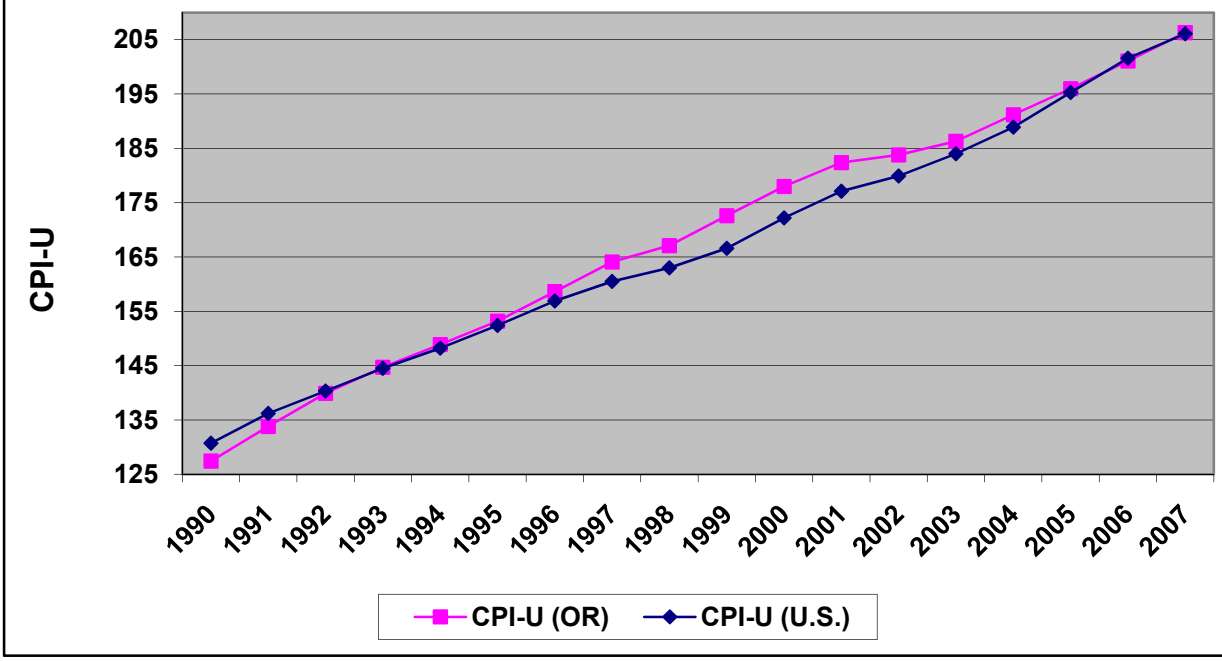
OREGON'S UNEMPLOYMENT RATE AND NATIONAL RANKING

Year	Unemployment Rate	National Ranking		Year	Unemployment Rate	National Ranking
1990	5.4%	24		**1999**	5.5%	4
1991	6.4%	26		**2000**	5.1%	4
1992	7.3%	19		**2001**	6.4%	1
1993	6.9%	18		**2002**	7.6%	1
1994	5.5%	25		**2003**	8.1%	1
1995	4.9%	29		**2004**	7.3%	2
1996	5.6%	12		**2005**	6.2%	6
1997	5.6%	9		**2006**	5.4%	7
1998	5.7%	5		**2007**	5.2%	7

Since 1990, price levels, as measured by the Consumer Price Index (CPI) for Urban Consumers, have increased at a rate of about 2.7 percent for all U.S. cities and 2.9 percent for Oregon cities. That said, from 1993 to 2005, Oregon consumer prices were below the national cities average. However, many factors have created increased costs for cities that exceed the CPI.

FIGURE 4

CPI-U NSA, Portland-Salem, OR-WA 1982-84=100
CPI-U NSA, U.S. Cities Average, 1982-84=100

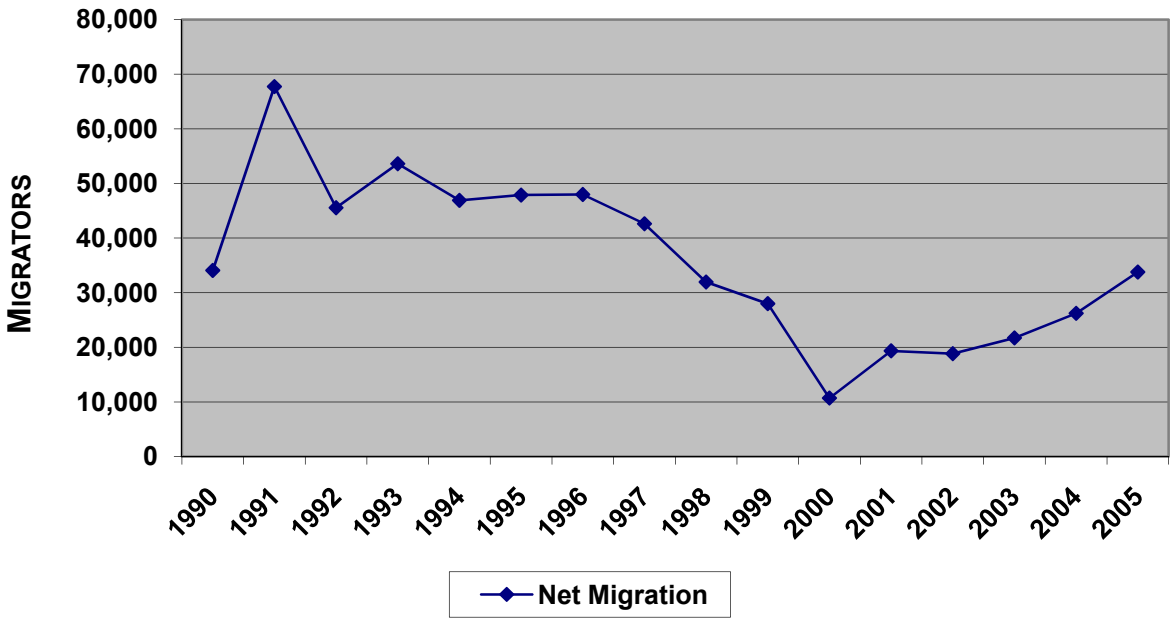


Source: Bureau of Labor Statistics
Note: Rankings do not include Puerto Rico or Washington D.C.
Higher ranking signifies higher unemployment rate.

Population growth in Oregon since 1990 has generally been positive, with most growth occurring in incorporated areas of the state. There was a decrease in Oregon's population growth trend in the late 90s. Below is a graph of the net migration into Oregon over the same time period. While population growth due to natural increase (births minus deaths) remained constant, for the most part the net migration of people moving to Oregon began to decrease in the late 1990s. Since 2001, net migration has been increasing. The slowdown lasts from 1997 through 2000 and coincides with the economic slowdown of the late 1990s in the U.S. By 2000, the population had begun to return to its initial growth trend of 1.6 percent per year. This in-migration to Oregon places upward pressure on the unemployment rate mentioned above. On average, in any given year about 64 percent of the population increase is due to in-migration to Oregon while about 36% can be attributed to natural increases.

FIGURE 5

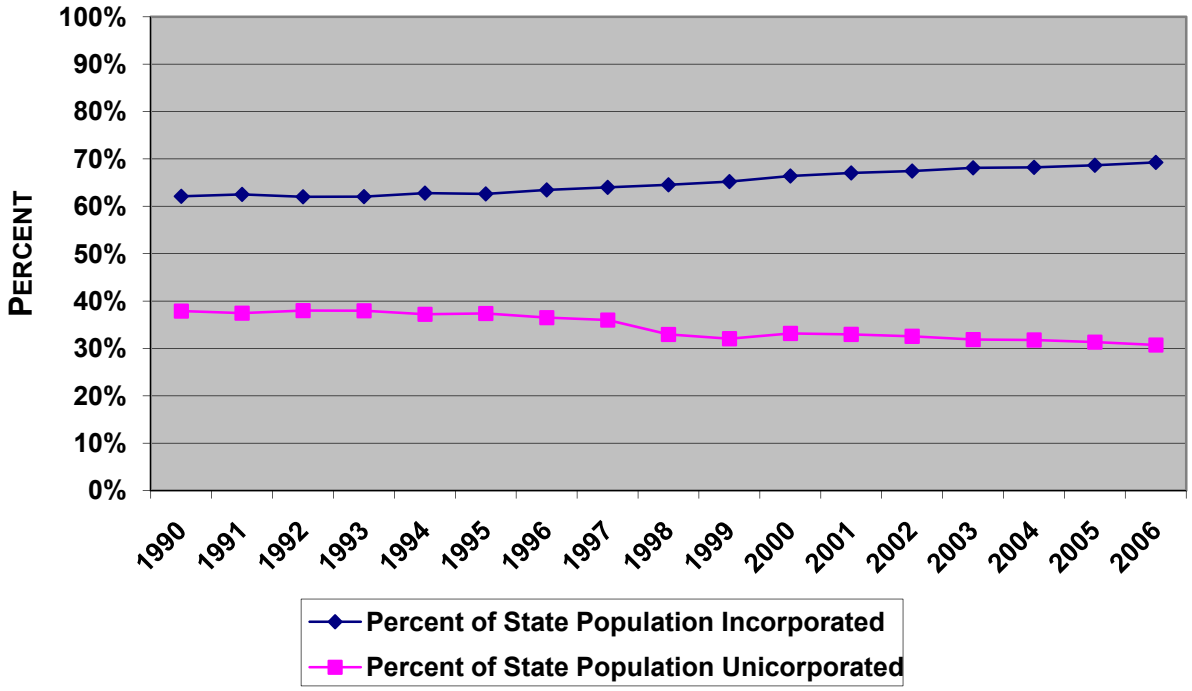
NET MIGRATION TO OREGON



The population growth is mostly occurring in incorporated areas. In 1990, 62.1 percent of Oregon's population resided in incorporated areas while the other 37.9 percent resided in unincorporated areas. By 2006, 69.3 percent resided in incorporated areas while only 30.7 percent resided in unincorporated areas.

FIGURE 6

PERCENT OF STATE POPULATION INCORPORATED AND UNINCORPORATED



Despite the slowdown in population growth from 1997-2000, growth was still positive. Census 2000 figures reveal that many parts of Oregon experienced significant growth in the 1990s in general. In some communities, population grew more than 50 percent over the decade. Many cities have experienced even faster growth rates in the 2000s than they had in the previous decade despite the recession and the slowly recovering economy of the early 2000s. This growth in population increases demand for public services and places cities in a fiscal pinch when the state economy is in a downturn, leading to fewer tax revenues. This is compounded by the fact that new construction does not create tax revenue adequate to meet the service demands of the corresponding growth. As the economy slows there are fewer revenues from corporate taxes, income taxes, and property taxes when the real estate market is suffering as well.

Taxation in Oregon: A Brief Review

As discussed above, during and since the 1990s Oregon cities faced new constraints that inhibited municipal revenues from rising to meet growing service needs. Most importantly, voter approved property tax limits have restricted this important source of city general fund revenues. Ballot measures 5 (1990) and 50 (1997) severely limited the potential for future growth in property taxes to finance city services.

Ballot Measure 50 also created a stark contrast between growing communities and others. Growing communities are allowed to add to their tax bases the taxable value of new construction (although offset by costs for additional services which may exceed the revenues from the increased tax base). Meanwhile, communities not experiencing growth feel the full effects of the property tax limitation measures. As one city official observed in 2001, "Those with no growth get no (new) taxes, but their costs keep rising and their stuff keeps wearing out." Highlights of these property tax limitation measures are shown below.

Oregon Property Tax Limitations

Ballot Measure 5 (1990)

Establishes rate limits:

$5 per $1,000 *market* value for schools*

$10 per $1,000 *market* value for non-schools*

*Limits apply to each individual property

Ballot Measure 50 (1997)

Repeals/replaces Ballot Measure 47 (1996)

Rolls back *assessed value* of each property to 90 percent of its 1995-96 value

Limits future growth on taxable value to 3 percent annually (except for construction, remodeling, subdivisions and rezoning)

Establishes permanent tax rates for local taxing districts, replacing their former tax bases and serial levies

Allows voters to approve new, short-term levies outside the permanent rate limit—if approved by a double majority**

**Double majority not required in general elections

During the 1990s, the decline in property tax revenues was not filled by other taxes. In that decade, the Oregon state and local tax burden fell steadily in comparison with other states. In 1989-90, Oregon ranked 19th of 50 states in total state and local taxes per capita. By 2004-05, Oregon's ranking moved to 36th, and during the 2001-02 fiscal year Oregon ranked its lowest at 41st in total state and local taxes per capita. Measured as a percentage of personal income, Oregon state and local taxes ranked 13th in 1989-90, falling to 44th of 50 states by 2004-05. During the 2001-02 fiscal year Oregon ranked its lowest at 46th in total state and local taxes as a percent of personal income. Since the 2001 report, property tax revenues have continued to be reduced. Cities are now feeling the full effects of Measures 5 and 50, causing them to look into other resources such as

utility and franchise fees. Measure 5 compression has been experienced in many cities, which makes the creative use of other funds a necessity as well.

As reported in a 2007 research report published by the Oregon Legislative Revenue Office, Table B "shows how several Oregon taxes have changed relative to other states over the past twenty years. Oregon's [total] tax burden [as a percentage of income] consistently ranked between #10 and #20 from 1982-83 through 1993-94, slightly lower on a per capita basis. The phase in of lower property tax rates under Measure 5 (passed in 1990) and lower assessed values under Measure 50 (1997) eventually pushed the state's [total] tax burden [as a percentage of income] to #45 in 1998-99. These measures lowered Oregon's property tax burden rank from #5 in 1989-90 (as a % of income) to #28 in 1998-99. Oregon's personal income tax burden has consistently been among the highest in the country while its corporate income tax burden has fluctuated around the middle."[10]

TABLE B

OREGON TAX RANKINGS

	Total Taxes		Personal Income Taxes		Corporate Income Taxes		Property Taxes	
	% of Income	Per Capita	% of Income	Per Capita	% of Income	Per Capita	% of Income	Per Capita
1982-83	13	18	3	6	23	21	9	13
1983-84	14	21	5	8	26	22	4	10
1984-85	14	20	3	7	28	25	5	10
1985-86	19	23	7	8	23	22	4	8
1986-87	11	21	4	7	34	30	5	8
1987-88	19	27	7	8	28	26	3	8
1988-89	10	21	3	6	35	35	4	7
1989-90	13	19	3	6	32	33	5	7
1990-91	12	20	3	6	34	35	6	11
1991-92	13	22	2	7	37	36	8	12
1992-93	15	24	1	6	26	24	13	16
1993-94	18	24	2	4	24	19	15	16
1994-95	26	27	2	5	24	21	19	20
1995-96	37	32	2	7	29	25	24	26
1996-97	33	27	1	5	21	17	24	17
1997-98	41	33	1	5	32	31	25	28
1998-99	45	33	2	4	27	23	28	30
1999-00	39	29	2	4	18	17	25	29
2000-01	NA	NA	NA	NA	NA	NA	NA	NA
2001-02	46	41	3	6	35	34	25	27
2002-03	NA	NA	NA	NA	NA	NA	NA	NA
2003-04	42	32	2	5	24	22	28	22
2004-05	44	36	5	5	33	30	26	28
2005-06	NA	NA	NA	NA	NA	NA	NA	NA

NA = Not Available. Source: Oregon Legislative Revenue Office. *Information only available through 2005*

[10] Source: "Oregon Public Finance Basic Facts Research Report #1-07, Legislative Revenue Office, 2007.

IV. SURVEY OF OREGON CITIES

Overview

This section presents an overview of the original LOC city survey results for fiscal year 2000-2001 and the updated LOC city survey for fiscal year 2006-2007. The survey was designed to provide an assessment of the current and future financial conditions of Oregon cities. Many of the questions are based on the yearly "city fiscal conditions" survey conducted by the National League of Cities to provide a basis for comparing Oregon cities to other cities in the U.S. [11]

The survey identified factors affecting: (1) city revenues; (2) city expenditures and services; (3) the effects of property tax limitations; (4) city strategies regarding revenues; (5) city strategies regarding expenditures and services; and (6) the city's overall financial conditions.

The results suggest that fiscal conditions in Oregon cities have generally improved since the original 2001 study. While 22 percent of respondents in 2001 reported that they were better off in the current year than in the previous year, 38 percent of respondents in 2007 reported that they were better off in the current year than in the previous year. Looking ahead, only 31 percent of the respondents in 2007 expect conditions to be better next year while 54 percent expect conditions to be worse.

To accommodate city fiscal conditions, city finance officers responded in several ways. The most common responses were to increase the number and level of fees and charges or to increase the number and level of impact fees or development fees. Cities also decreased public safety spending and infrastructure spending.

While cities in 2007 are generally more optimistic about their fiscal conditions than they were in 2001, they face several fiscal challenges in the coming years including continued diminishing returns on property tax revenues, higher operating costs in general, and higher costs associated with employee health care and retirement benefits in particular.

Survey Results

Most Cited Positive Factors Affecting Oregon Cities' Revenues Since 1990:

- New and increased fees: franchise fees/utility taxes; building permits; SDCs; business taxes.
- Annexation, new construction, growth.

[11] The Oregon surveys are for fiscal years that begin in July and end in June. The National surveys are for fiscal years that begin and end at various times. Determining which data corresponds to fiscal years ending in 2001 and 2007 is at the cities' discretion for the national survey.

- Other factors included: A strong economy, growth in assessed property value, receipts of grants, room taxes and tourism, urban renewal districts, and population growth.

Most Cited Negative Factors Affecting Oregon Cities' Revenues Since 1990:

- Property tax limitations—impacts of Measures 5 and 47/50 on property taxes.
- Lack of economic growth, stagnant economy, plant closures, unemployment rates, interest rates affecting city investments.
- State and federal level constraints, local options, mandates, and reductions.
- Other factors included: State gas taxes and other fee revenues not keeping up with the rate of inflation, population growth and increased travel, decreases in assessed value, decreased revenue sharing, lack of voter support and volunteerism, voter initiatives, decreased grant availability, and decreased road fund revenue.

Most Cited Positive Factors Affecting Oregon Cities' Expenditures/Services Since 1990:

- Growth in the economy, population and tourism.
- Decline in interest rates and low inflation—reducing borrowing costs and holding down price increases.
- Productivity improvements, teamwork, staff reductions.
- Stable labor costs including COLAs (cost of living adjustments), falling technology costs, contracting out services (public safety, volunteer fire, merger into a fire district, planning, utility management, etc.).

Most Cited Negative Factors Affecting Oregon Cities' Expenditures/Services Since 1990:

- Pension and health care cost increases, rising wages.
- Other cost increases: energy, real estate, maintenance, litigation, drought/natural disaster, construction, fuel, long run costs from deferred maintenance, cost of maintaining aging infrastructure.
- Increased demand for public services.
- State and federal mandates, especially environmental.

Impacts on Oregon Cities of Property Tax Limitations Adopted in the 1990s:

In 2001, 77 percent of survey respondents said they have already felt, or will soon feel, the effects of the voter-approved property tax limitation measures that were a legacy of

the 1990s. In 2007, the figure was 89 percent. The following table outlines city views on the increasingly negative effects of property tax limitations.

TABLE C

IMPACTS OF PROPERTY TAX LIMITATIONS

% of Respondents*	Property tax limitations…
23% (2001)/9% (2007)	Have affected your city revenues and core services very little
16% (2001)/31% (2007)	Have had little effect to date, but will impact city revenues and services more greatly in the future
61% (2001)/60% (2007)	Have already negatively impacted city revenues and core services
*2007 results based on 97 responses	

Revenue Actions/Strategies that Oregon Cities are Currently Undertaking or Considering for the Future

The revenue actions initiated most often by Oregon cities for 2001 and 2007 were to increase the number and/or level of fees and charges and to increase the number and/or level of impact or development fees. As was the case in 2001, these actions in 2007 are the most anticipated actions for future years. No other revenue actions were being initiated in 2001 or 2007 by more than a small minority of cities. However, the percentage of cities looking at future business tax and or other tax actions has increased since 2001, while those seeking property tax actions has slightly decreased, highlighting Oregon cities' inability to depend on property taxes as a reliable source of revenue.

TABLE D REVENUE ACTIONS AND STRATEGIES			
Revenue Actions	**% of Respondents***		
	At Present	**Future**	**National At Present**
Increase number/level of fees & charges	49% (2001) 50% (2007)	40% (2001) 37% (2007)	*17%, 36% (2001) *27%, 45% (2007)
Increase number/level of impact fees or development fees	33% (2001) 44% (2007)	40% (2001) 37% (2007)	17% (2001) 22% (2007)
Increase property taxes	7% (2001) 6% (2007)	22% (2001) 20% (2007)	22% (2001) 29% (2007)
Increase business taxes/rates	8% (2001) 8% (2007)	11% (2001) 20% (2007)	NA (2001) NA (2007)
Increase other taxes/rates	13% (2001) 14% (2007)	21% (2001) 27% (2007)	*3%, 6% (2001) *5%, 11% (2007)
*Number of fees reported first, then level of fees, 2007 results based on 99 of 128 responses.			

Other revenue actions and strategies either implemented or discussed as reported by Oregon cities surveyed in 2007 included:

- Indexing of city fees including SDCs (Gresham)
- Water/sewer franchise fees (Canyonville)
- General obligation bond (Coos Bay)
- New businesses such as golf course, fiber project (Cottage Grove)
- Urban renewal district (Damascus)
- Fees for street/storm drain maintenance (Dayton)
- Capital levy for transportation (Eugene)
- Bond for a new city hall (Monmouth)
- Issuing bonds and changing basis of accounting (Newport)
- Implementing a traffic maintenance fee (Oregon City)
- Cell phone tax, General Obligation Bond (Portland)
- Parks general obligation bond (Roseburg)

- Capital levy for recreation (Sherwood)
- Charge fees to recover costs when appropriate (Wilsonville)
- Development agreement with proposed entertainment center (Wood Village)

Expenditure/Service Actions and Strategies that Oregon Cities are Currently Undertaking or Considering for the Future

On the other side of the ledger, what are cities experiencing on expenditure and service needs? The expenditure actions initiated most often in the current year and expected for the future by Oregon cities for 2001 was to increase infrastructure spending, operating costs, and pension and health care costs. In 2007 Oregon cities decreased expenditure actions in every category except public safety expenditures, which rose by 6 percent so that 31 percent of Oregon cities increased public safety expenditure in fiscal year 2006-07. Future expectations suggest that infrastructure spending increases will be the dominant expenditure action in future years. Unfortunately, the percent of cities decreasing expenditure actions was not reported in 2001. Table E highlights Oregon cities' responses.

TABLE E

OREGON CITIES – EXPENDITURE/SERVICE ACTIONS

Service Efficiencies	Percent of Respondents ↑=increase, ↓=decrease		
	At Present	**Future**	**National At Present**
Change in city service levels	33%↑ (2001) 22%↑, 12%↓(2007)	32%↑ (2001) 20%↑, 11%↓(2007)	31%↑ (2001) 24%↑, 3%↓ (2007)
Contracting out services	15%↑ (2001) 12%↑, 2%↓ (2007)	28%↑ (2001) 14%↑, 4%↓ (2007)	28%↑ (2001) 22%↑, 2%↓ (2007)
Productivity levels	31%↑ (2001) 26%↑, 1%↓ (2007)	27%↑ (2001) 19%↑, 2%↓ (2007)	43%↑ (2001) 40%↑, 2%↓ (2007)
Intergovernmental agreements	17%↑ (2001) 13%↑, 0%↓ (2007)	31%↑ (2001) 21%↑, 1%↓ (2007)	24%↑ (2001) 20%↑, 1%↓ (2007)
Expenditures			
Infrastructure spending	40%↑ (2001) 30%↑, 10%↓(2007)	53%↑ (2001) 42%↑, 9%↓ (2007)	65%↑ (2001) 59%↑, 9%↓ (2007)
Change in operating costs	36%↑ (2001) 27%↑, 13%↓(2007)	39%↑ (2001) 21%↑,11%↓(2007)	62%↑ (2001) 52%↑, 6%↓ (2007)
Change in public safety costs	25%↑ (2001) 31%↑, 7%↓ (2007)	35%↑ (2001) 29%↑, 2%↓ (2007)	83%↑ (2001) 77%↑, 1%↓ (2007)
Change in pension and health care costs	37%↑ (2001) 27%↑, 3%↓ (2007)	35%↑ (2001) 19%↑,10%↓(2007)	NA (2001) NA (2007)
Other actions	02%↑, 1%↓ (2007)	01%↑, 1%↓ (2007)	NA (2007)
2007 results based on 91 of 128 responses.			

Other expenditure actions and strategies either implemented or discussed as reported by Oregon cities surveyed in 2007 included:

- Increased community events (Roseburg)
- Replacement of aging equipment (Newport)
- Reduced transfers to reserve funds (Mill City)
- Do not offer pension and/or health care (St. Paul)
- Fire department annexation (Phoenix)

TABLE F

REVENUE AND EXPENDITURE STATISTICS FOR OREGON AND U.S. CITIES

	Nation 2001	Oregon 2001	Nation 2007	Oregon 2007
Leading Source of Cost Pressure	Employee health benefits	Citizens expectations for services	Prices and inflation	Employee health and retirement benefits
Leading Revenue Action	Increase fees	Increase fees	Increase fees	Increase fees
Leading Expenditure/Service Action	Increase infrastructure spending	Increase infrastructure spending	Increase public safety spending	Increase public safety spending

Sources: *City Fiscal Conditions in 2007*, National League of Cities. *Financial Survey of Oregon Cities,* League of Oregon Cities, August 2007.

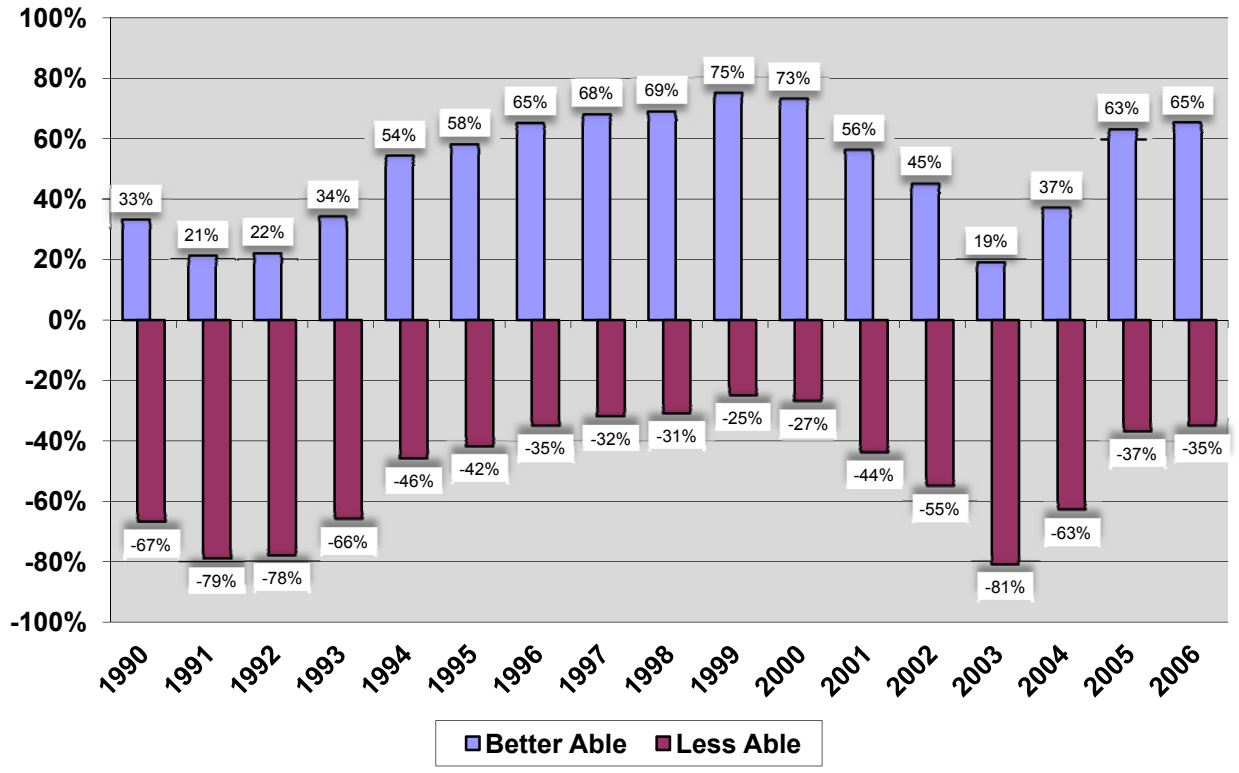
Overall Financial Conditions of Oregon Cities

Though the survey methodology is slightly different and direct comparison to the Oregon survey data are not practical, the historical national survey data provides insight into the fiscal condition trends of cities since 1990.[12] Figure 7 clearly demonstrates how U.S. cities were affected by the recession of 2001 and the slow recovery that began in 2003 as discussed above in Section II.

[12] The national survey only accommodates a "better off" or "worse off" response. The Oregon survey allows respondents to answer "about the same." This makes direct comparisons impractical, though similarity in trends is evident.

FIGURE 7

PERCENT OF U.S. CITIES THAT ARE "BETTER ABLE/LESS ABLE" TO MEET FINANCIAL NEEDS THIS YEAR THAN LAST YEAR



Oregon cities were also asked if they are now better able or less able to meet their financial needs than in the previous year. On average the number of cities who were better off financially than in the previous year in 2007 was higher than in 2001.

When asked whether they expect to be better able or less able to meet financial needs in the next fiscal year, most cities expect to be worse off. This is true of the national survey respondents as well.

TABLE G

CITIES' FINANCIAL EXPECTATIONS FOR THE NEXT FISCAL YEAR

	Better Off	Worse Off	About the Same
Current year financial condition	22% (2001) 38% (2007)	NA (2001) 32% (2007)	NA (2001) 30% (2007)
Expectations for next year's financial condition	NA (2001) 31% (2007)	NA (2001) 54% (2007)	NA (2001) 15% (2007)

2007 results based on 73 of 128 responses for the current year and 71 of 128 responses for next year's expectations.

Other Comments and Suggestions from Oregon Cities

Additional comments and suggestions were offered by some of the 128 participating cities and are listed below:

- Concerned by lengthy process of applying for federal infrastructure grants.
- Highway fund needs to be larger and allow more control at the local level regarding which streets need improvement.
- Less state control; more local control.
- LOC should support SDCs for schools, fire, library, and city administration buildings.
- LOC should support a sales tax.
- LOC should advocate for the elimination of the double majority.
- LOC should promote creative ideas for generating new fees.
- LOC should help neighboring communities investigate cost sharing in computer resources (servers, software, support).
- No more legislative mandates without funding.
- High costs of street maintenance and The Connect Oregon program does not provide as much benefit to smaller communities.
- Find a way for cities to modify their tax base.
- Protect city flexibility in collecting and using franchise fees.
- Do not allow additional limitations on annexation.
- The method of taxing older and newer properties resulting from M47/50 is inequitable.
- Continue programs like OECDD.
- Major infrastructure issues like water or sanitary systems are tough to fund up front before SDCs are received.
- Solutions for educational funding for new capital infrastructure would free up local debt capabilities for operating levies for services.
- LOC can assist with consolidated and financial response to individual cities with issues of general concern.
- Street repair revenue from tourism for small cities with heavy tourism traffic.
- Maintain revenue flows from liquor tax, cigarette tax, and revenue sharing.
- Work to eliminate preemptions on local fees and taxes imposed by the Legislature.
- Raise local government property tax limit from $10/thousand to $12/thousand.

- Help maintain level of public safety.
- Union costs exceed increases in property taxes through annexations.
- Help reduce or limit contract and insurance costs.
- Too much rests on the property tax. Income challenged small cities have double the tax rate for half the revenue. Small cities have the same municipal work as larger cities with fewer staff. More help is needed for small cities.
- It's difficult for small cities with no new development growth to pay for annual cost increases.
- Need to eliminate or modify "change property ratio."
- Need larger share relative to counties for gas tax dollars.
- Revamp property tax law to better help schools.
- Remind Legislature that city services are just as important as schools.
- Increase ODOT Small City Allotment (SCA) in the next session to assist small cities in getting some minor road projects completed. SCA allotment has been $25,000 for the past fifty years.
- Lobby for Oregon State Lottery dollars for cities' economic development.
- Oregon's property tax system is creating structural deficiencies for local governments, making it impossible to meet growing service level demands.
- Cities face rising health care costs, politics associated with staff reductions, PERS expenses, revenue limitations, legal monthly fees for services, and collective bargaining limitations such as SB 400.
- The ethics board should not be able to fine government officials. The election law is confusing. Government agencies fining one another is just wasting tax dollars by shuffling revenue around.
- Press for uniform gas tax for road maintenance.
- Training for future managers is needed.
- Remove requirements that apply only to government for contracting, purchasing, and infrastructure improvements.
- Become more proactive in getting the word out to the general public about what cities have accomplished; don't just focus on what needs to be done.
- LOC should be more involved in long term finance solutions for cities.
- Need more room taxes and a sales tax.
- Need to capture tax revenues from tourists who use Oregon services and roads.
- Fund schools at the state level, not the local level.
- We need moderate annual increases in fuel tax.

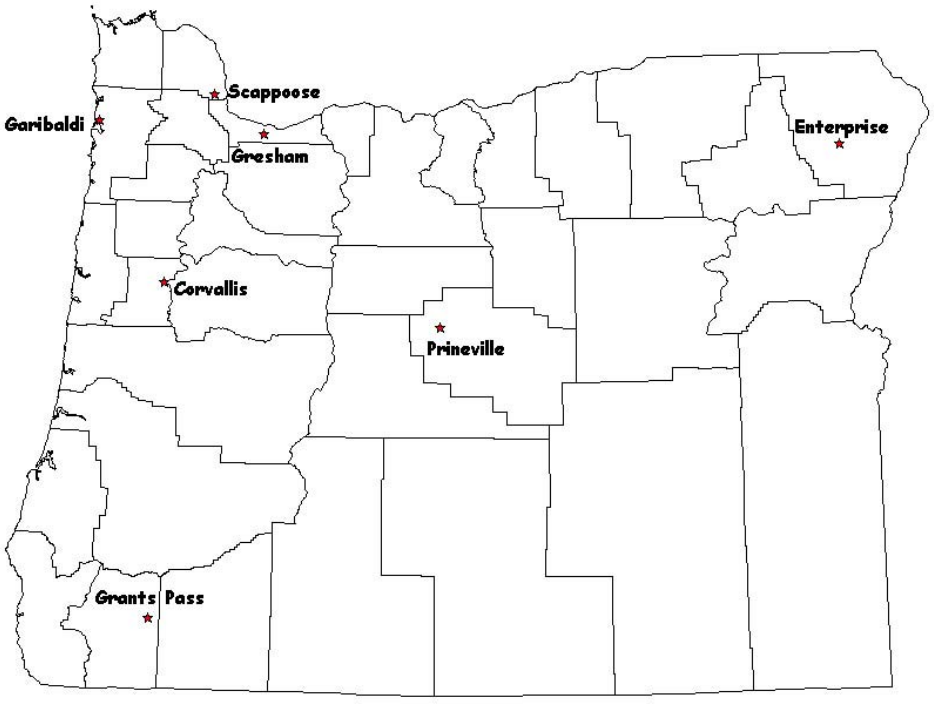
- Lobby against additional labor costs when there is not a guarantee of increased revenue.
- A number of cities say they are already looking ahead to address their worsening financial picture: adopting belt-tightening measures, and making plans to pursue revenue options.
- Some small cities are finding it increasingly difficult to meet federal and state mandates and other costs which are outside local control (e.g., environmental mandates, employee health benefits and pension costs).
- Small cities also report a surge in competition for grants, which they say disadvantages jurisdictions that must rely on a small staff.
- A long-term solution is needed rather than stopgap measures, some respondents observe. Cities must have an elastic revenue source that keeps pace with growth and inflation.
- Meanwhile, the State of Oregon can help by allowing more flexibility at the local level to raise revenues.

V. CASE STUDIES

Overview

For this study the LOC gathered detailed data on the financial conditions of the seven original case study cities representing a cross-section of Oregon cities. The cities that were selected to participate in the original case studies represent a wide range of locations (seven different counties and regions), city sizes, patterns of population growth (ranging from only 2 percent growth to 87 percent population increase from 1990 to 2006), and diverse financial conditions. This section is a continuation of the ideas discussed in the city survey section of the report and is designed to provide a more in-depth assessment of the fiscal conditions of Oregon cities. Participating cities are shown on the accompanying map.

Case Studies: 2010 Financial Forecast for Oregon Cities



Oregon Cities Participating in Case Studies

As was the case for the cities participating in the general city survey in the previous section, for these seven cities the financial effects of Oregon's property tax limitation measures—Ballot Measure 50 in particular—are evident. Before M50 came into effect per capita assessed values grew at an average annual rate of 5.7 percent for the case study cities. After M50 came into effect, per capita assessed values grew at an average annual rate of 1 percent. In all cases assessed, values grew at a slower rate after M50

came into effect. Therefore, as discussed above, cities have been forced to shift toward other non-tax revenue sources.

However, these major non-tax revenue sources—which are typically utility franchise fees, enterprise funds, and other fees and charges—aren't always available to contribute to the cities' general funds and are often affected by volatility in the economy. In five of the seven cities, the general fund has declined, in most cases significantly, as a share of total city revenues since 1990.

Revenue pictures for these cities are clouded by property tax constraints, and there are signs that cities' general financial conditions deteriorated into 2003 though they improved somewhat for four of the cities by 2006. Profiles of the seven case study cities appear in Appendix E. Appendix G includes additional financial highlights of the case study data for 1990-1995, 1995-2000, 2000-2003, and 2003-2006. This section of the report discusses population trends, revenue trends, expenditure trends, surplus and deficit trends, and trends in ending balances.

Population

Population is an important factor for city governments in the sense that a larger population requires more public services and can be a cause of increasing property values. The table below provides the average annual growth rate for the seven case study cities and the state of Oregon as a whole.

TABLE H

POPULATION GROWTH

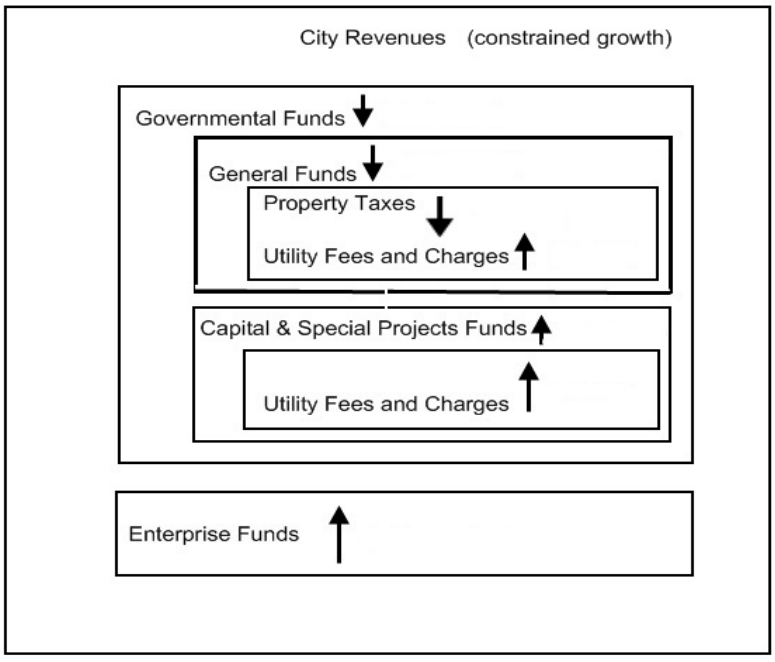
City	Location	County	1990-2006 Average Annual Population Growth	2007-2010 Average Annual Forecasted Population Growth
Corvallis	Willamette Valley	Benton	1.2%	0.7%
Enterprise	Eastern Oregon	Wallowa	0.2%	0.3%
Garibaldi	North Coast	Tillamook	0.3%	0.6%
Grants Pass	Southern Oregon	Josephine	3.7%	6.9%
Gresham	Portland Metro Area	Multnomah	2.3%	1.4%
Prineville	Central Oregon	Crook	4%	5.3%
Scappoose	Lower Columbia River	Columbia	3.2%	2.7%
State of Oregon			**1.6%**	**1.4%**

It should be noted that population growth rates and population growth are two distinct measures with different implications. For example, while Prineville's population grew at an average rate of 4 percent per year from 1990-2006 and Gresham only grew by 2.3 percent per year during the same time period, the average increase in the population of Prineville was 284 people per year while the average increase in the population of Gresham was 1,907 people per year. While growth rates are important and useful statistics, the affect of 284 people on city services can be quite different for a community than the affect of 1,907 people.

Revenues

This section explores revenue trends for the seven cities for the years 1990-2006. Highlighted are property taxes, utility fees and charges, enterprise funds, and total revenues. The following diagram demonstrates the dynamics of the city revenue system. It does not include several revenue categories for simplicity. It should also be noted that each city is different and the diagram is only intended to demonstrate the changing dynamic forces within the system of city revenues.

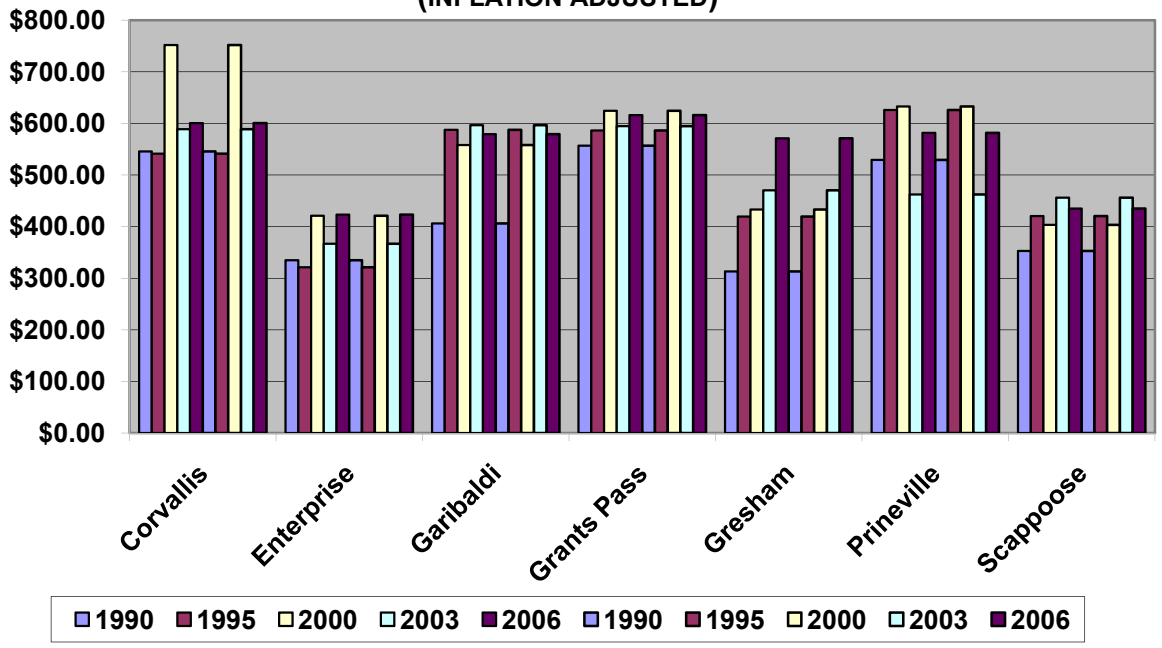
In general, there is downward pressure on property taxes and upward pressure on utility fees and charges. Because some utility fees and charges are not available to the general funds category, there is downward pressure on the general funds. Consequently there is upward pressure on both capital and special projects funds. The net effect on governmental funds is downward pressure. Enterprise funds have generally been increasing. The falling governmental funds and rising enterprise funds create constrained growth for all city revenues. The rest of this section outlines the individual processes as identified in the diagram.



Total city revenues including both governmental and enterprise funds have flattened for all cities over recent years.

FIGURE 8

CITY REVENUES PER CAPITA (INFLATION ADJUSTED)



Property tax revenues rose steadily from 1990-95 for all seven sample cities. Measured assessed property value per capita (inflation adjusted) increased annually from 3.6 percent to 9.1 percent for the seven cities through 1997. This picture was altered dramatically in the aftermath of Ballot Measure 50's passage. Under the new rules, assessed valuations remained flat or declining in all of the seven cities as is evidenced by the table and graphs below.

TABLE I

TOTAL ASSESSED PROPERTY VALUATION PER CAPITA (INFLATION ADJUSTED)

	1990	1997	1998	2006	*Avg. Annual % Change 90-97 (pre M50)*	*Avg. Annual % Change 98-06 (post M50)*
Corvallis	$18,125	$32,964	$33,359	$31,678	*9.1%*	*-0.6%*
Enterprise	$16,233	$23,078	$20,218	$22,644	*5.3%*	*1.5%*
Garibaldi	$26,481	$37,200	$32,186	$37,006	*5.1%*	*1.9%*
Grants Pass	$26,356	$33,259	$29,986	$27,771	*3.6%*	*-0.8%*
Gresham	$21,271	$31,979	$26,836	$28,735	*6.0%*	*1.1%*
Prineville	$16,465	$22,071	$18,940	$21,735	*4.4%*	*1.8%*
Scappoose	$17,800	$27,240	$24,791	$28,669	*6.3%*	*1.8%*
Case Study City Average	$20,390	$29,684	$26,617	$28,320	*5.7%*	*0.9%*

FIGURE 9

ASSESSED PROPERTY VALUATION PER CAPITA (INFLATION ADJUSTED)

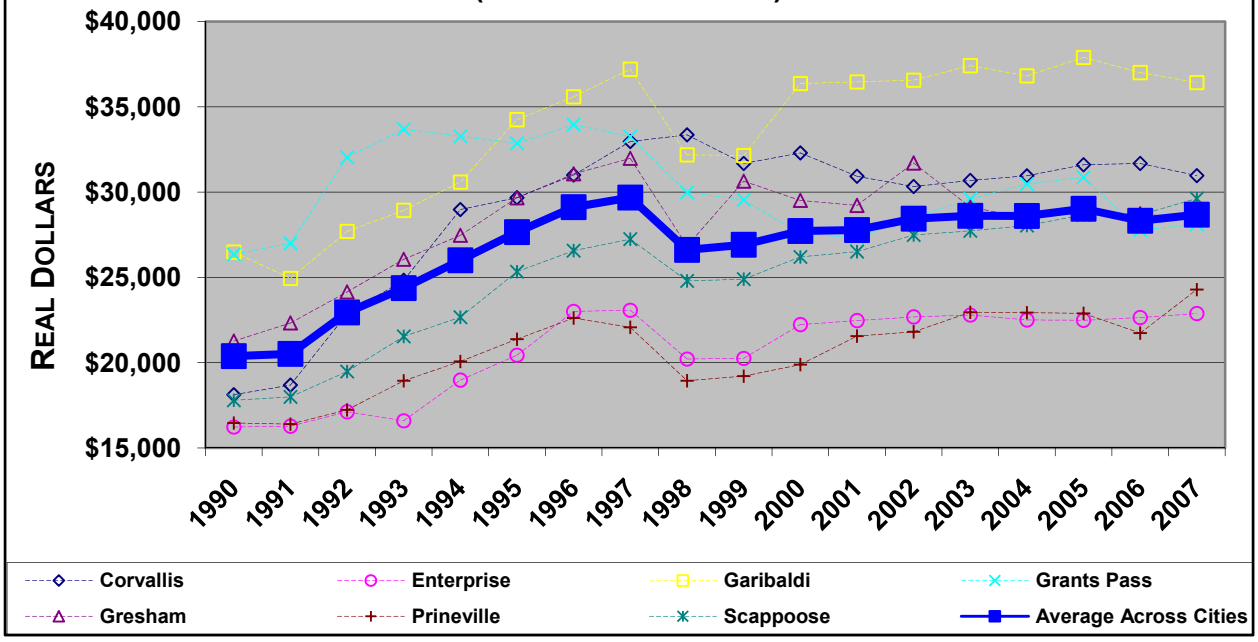
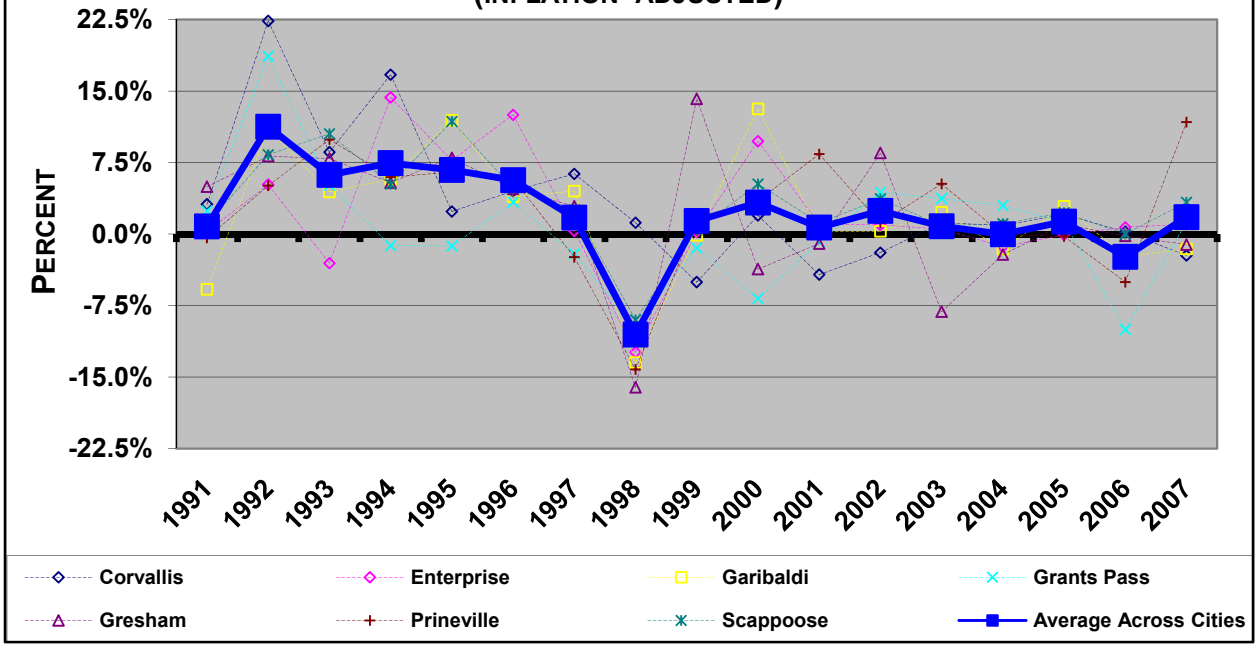


FIGURE 10

PERCENT CHANGE IN ASSESSED PROPERTY VALUATION PER CAPITA (INFLATION ADJUSTED)



Though one might assume the recession of 2001 and slow recovery afterward would push property values down, the converse happened and real property values continued to grow during this time. This is detailed further in the "Looking Ahead" section (page 49) which looks at real and assessed property valuation across all cities in the state of Oregon. The findings in this section for the case study cities are consistent with the statewide city information.

After passage of Measure 50, almost all Oregon cities experienced a significant decline in assessed value. While total assessed value for most cities has grown, it has done so at a rate reduced from pre-Measure 50 years. Since 1995, measured per capita, property taxes (adjusted for inflation) have remained flat or declined in all cities except for Grants Pass, which experienced exceptionally high growth during the post M50 period.

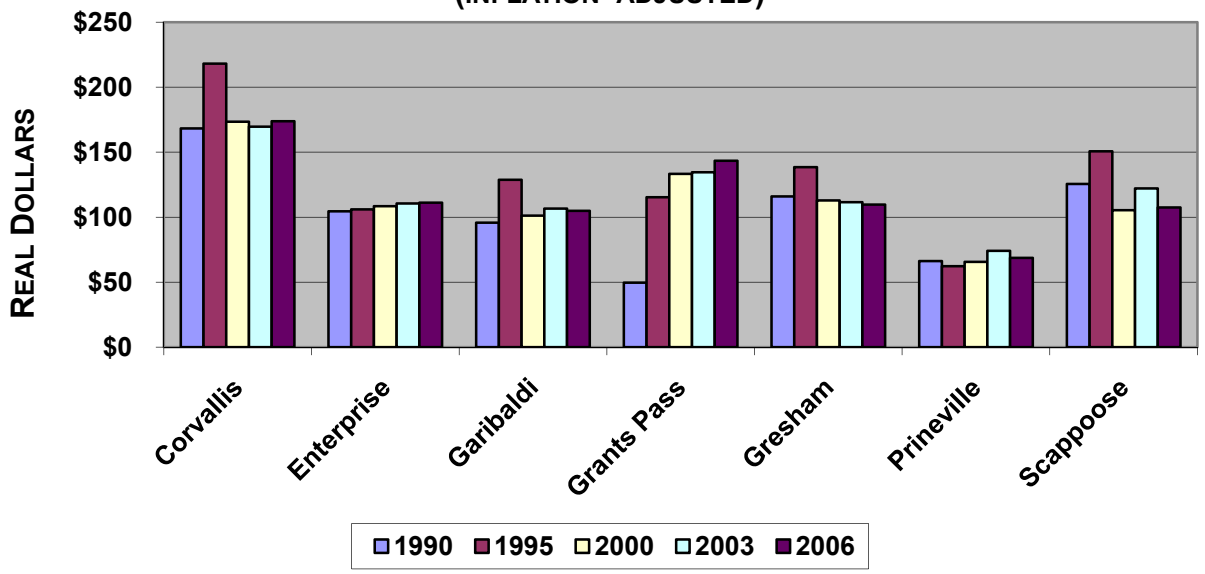
TABLE J

PROPERTY TAX REVENUES PER CAPITA (INFLATION ADJUSTED)

	1990	1995	2000	2003	2006
Corvallis	$168	$218	$173	$170	$174
Enterprise	$104	$106	$108	$110	$111
Garibaldi	$96	$129	$101	$107	$105
Grants Pass	$50	$115	$133	$135	$143
Gresham	$116	$138	$113	$111	$110
Prineville	$66	$62	$66	$74	$69
Scappoose	$126	$151	$105	$122	$107

FIGURE 11

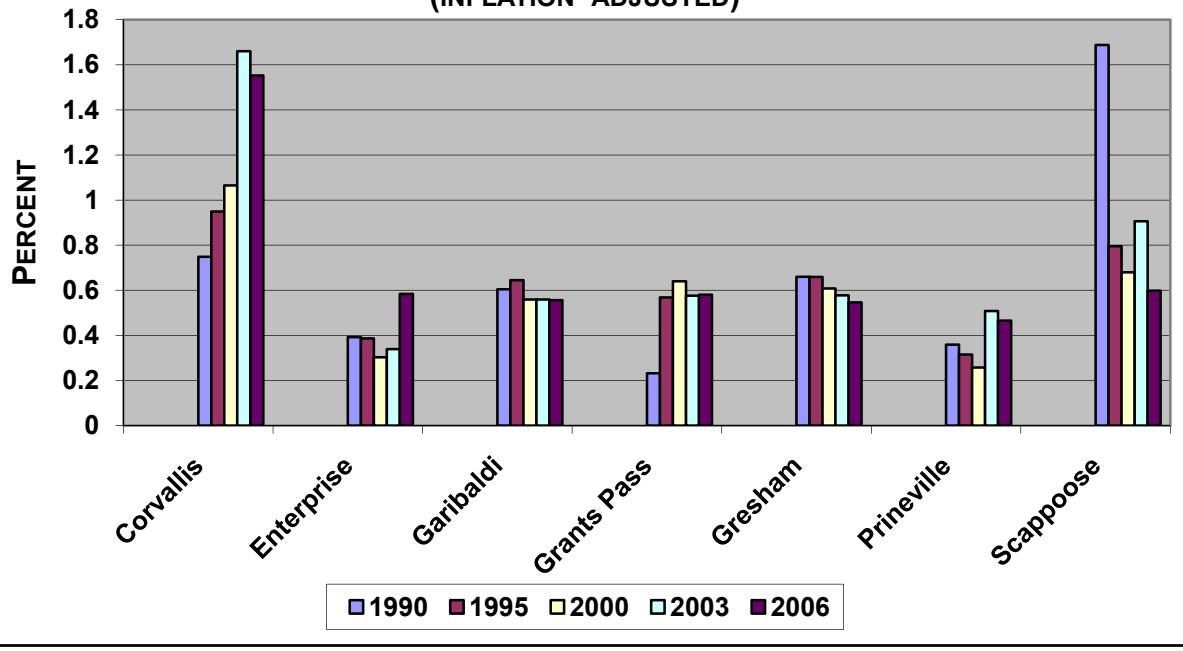
PROPERTY TAX REVENUES PER CAPITA
(INFLATION ADJUSTED)



Facing the new constraints imposed by Ballot Measures 5 and 50, communities were forced to reduce their reliance on property taxes. There has been downward pressure on the share of general fund revenues provided by property taxes but at the same time the general fund itself has been shrinking as a share of city revenue so the net effect is easily obtained from the following graph.

FIGURE 12

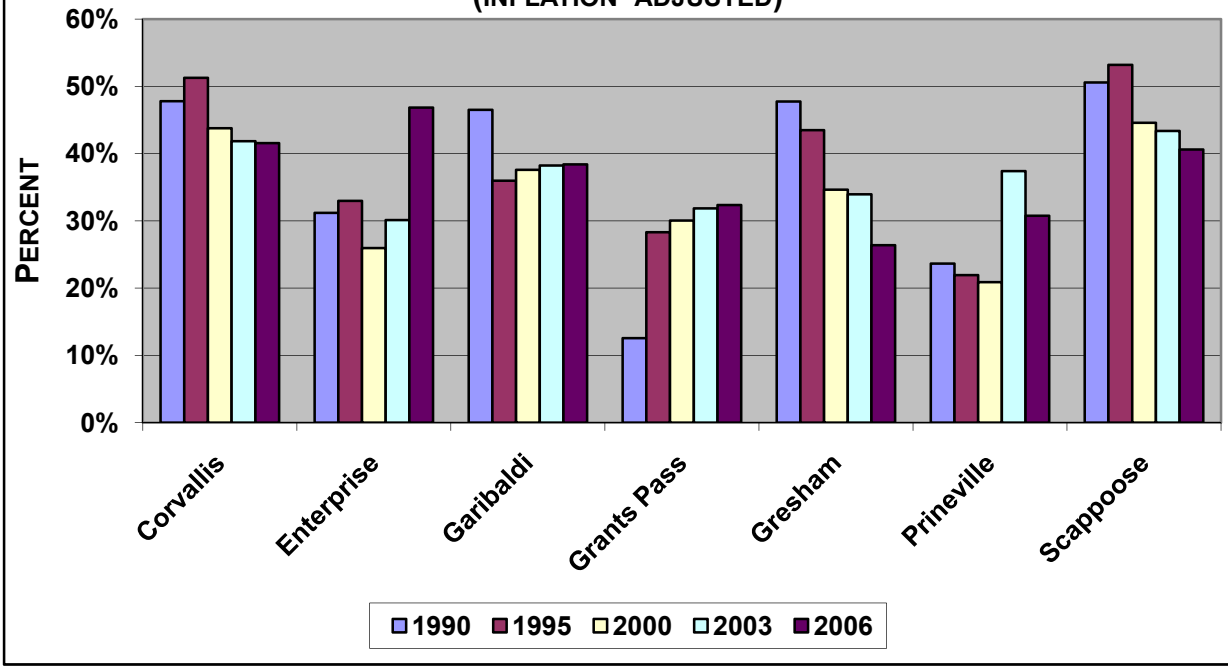
PROPERTY TAX AS PERCENT OF GENERAL FUNDS
(INFLATION ADJUSTED)



However, as the general fund has been shrinking, the capital funds and special projects funds have been increasing. So, when looking at the property tax share of total governmental funds the effect is more pronounced with the exception of Enterprise, Grants Pass and Prineville.

FIGURE 13

PROPERTY TAXES AS A PERCENT OF GOVERNMENTAL FUNDS (INFLATION ADJUSTED)



The traditional dominance of the property tax in city budgets meant that revenue trends in the 1990s largely paralleled property tax trends. Total revenues (inflation adjusted, per capita) increased, modestly or substantially, for most of the case study cities from 1990-95. Then from 1995-2000, total city revenues were generally flat or declined (Enterprise is the only significant exception to this trend). Since 2000, with the exception of Prineville (which has had to take on extra financial burden to pay for a wastewater project), this trend has held true with four cities losing revenue per capita and two experiencing modest gains.

As seen on the next page, the relative decline in property tax revenues also contributed to a drop in cities' general fund revenues as a percentage of total city revenues. This percentage dropped as case study cities shifted emphasis toward alternative revenues. By the end of the decade, the general fund no longer represented more than 38 percent of any city's total revenues, and as little as 21 percent in one city (Prineville).* By 2003, general fund revenues remained small but had increased in some cities and at most represented 42 percent of city revenues.

TABLE K

GOVERNMENT FUNDS REVENUE GROWTH PER CAPITA (INFLATION ADJUSTED)

	1990	1995	2000	2003	2006	*Average Annual % Change 1990-95*	*Average Annual % Change 1995-00*	*Average Annual % Change 2000-03*	*Average Annual % Change 2003-06*
Corvallis	$352	$425	$396	$405	$418	4.2%	-1.4%	0.5%	*0.6%*
Enterprise	$335	$321	$418	$367	$237	-0.8%	6.0%	-2.4%	*-7.1%*
Garibaldi	$206	$358	$269	$279	$273	14.8%	-5.0%	0.7%	*-0.4%*
Grants Pass	$395	$408	$444	$422	$443	0.6%	1.8%	-0.9%	*1.0%*
Gresham	$243	$318	$326	$328	$416	6.2%	0.5%	0.1%	*5.3%*
Prineville	$280	$284	$314	$198	$223	0.3%	2.1%	-7.4%	*2.5%*
Scappoose	$248	$283	$236	$282	$265	2.8%	-3.3%	3.8%	*-1.2%*
Case Study City Average	$294	$343	$343	$326	$325	4.0%	0.1%	-0.8%	*0.1%*

FIGURE 14

TOTAL GOVERNMENT FUNDS REVENUE PER CAPITA (INFLATION ADJUSTED)

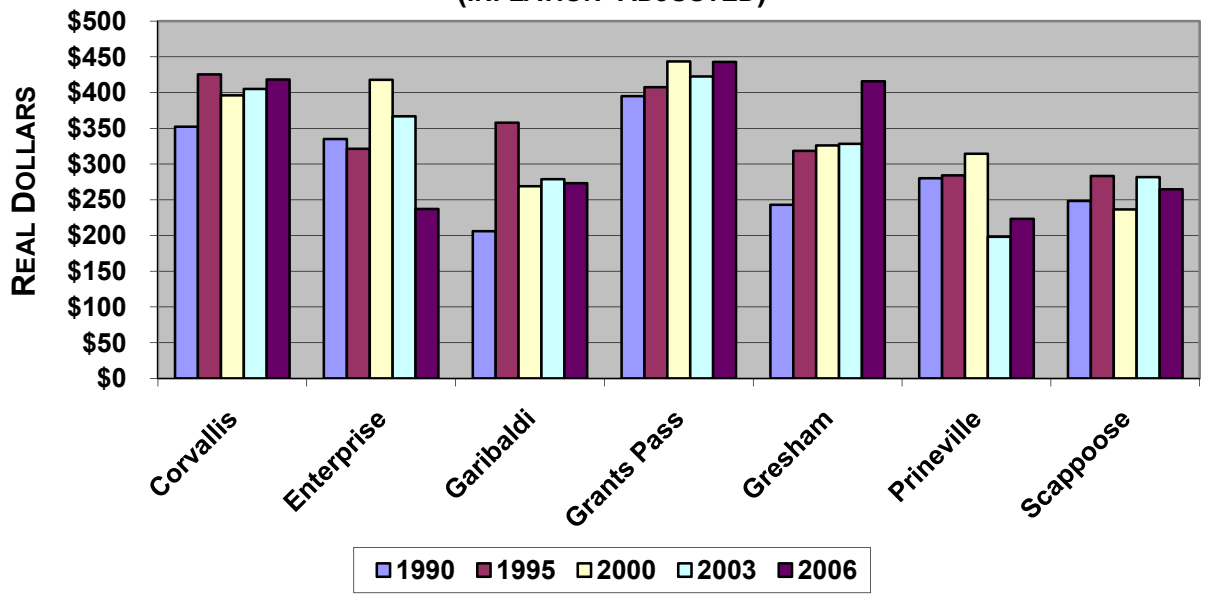


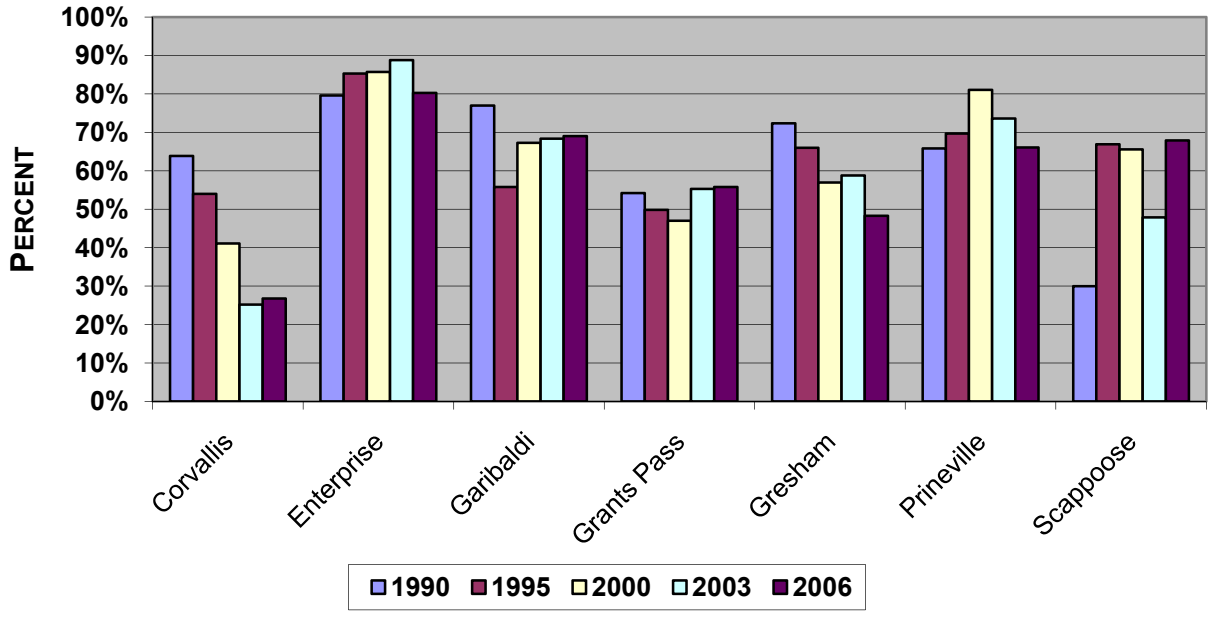
TABLE L

GENERAL FUND AS A % OF GOVERNMENT FUND REVENUE (REAL DOLLARS)

	1990	1995	2000	2003	2006
Corvallis	63.9%	54.0%	41.1%	25.2%	26.8%
Enterprise	79.6%	85.3%	85.7%	88.8%	80.3%
Garibaldi	77.0%	55.8%	67.3%	68.4%	69.0%
Grants Pass	54.2%	49.8%	47.0%	55.3%	55.8%
Gresham	72.4%	66.0%	57.0%	58.8%	48.3%
Prineville	65.8%	69.7%	81.1%	73.6%	66.1%
Scappoose	30.0%	66.9%	65.6%	47.9%	67.9%

FIGURE 15

GENERAL FUND AS % OF GOVERNMENT FUND REVENUE (PER CAPITA - INFLATION ADJUSTED)



*Note: The general fund's shrinking share of total city revenues signifies a change in city finances, but alone does not necessarily indicate a decline in cities' financial condition. One of the major revenue sources besides property taxes has been utility fees and charges. The share of the city budgets provided by utility fees increased in six of the seven cities during the 1990s. By 2000, this source provided from 14 percent (Prineville) to 54 percent (Enterprise) of total revenues for the seven participating cities.

Since 2000, utility fees have decreased slightly as a percent of total revenue in five of the case cities, but have remained higher than their 1990 levels. In 2003, utility fees provided between 15 percent (Scappoose and Grants Pass) and 50 percent (Enterprise) of total revenues for the seven participating cities.

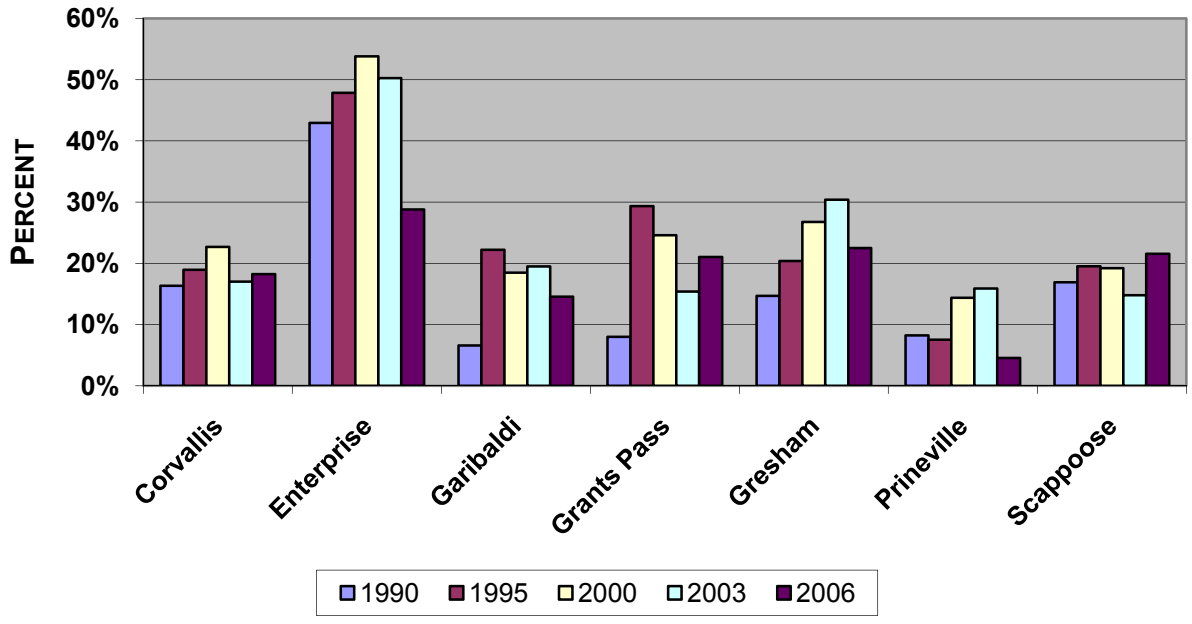
TABLE M

UTILITY FEES & CHARGES AS PERCENT OF GOVERNMENT FUND REVENUE (INFLATION ADJUSTED)

	1990	1995	2000	2003	2006
Corvallis	16.3%	18.9%	22.7%	17.0%	18.2%
Enterprise	42.9%	47.8%	53.8%	50.3%	28.8%
Garibaldi	6.6%	22.2%	18.5%	19.5%	14.5%
Grants Pass	8.0%	29.3%	24.6%	15.4%	21.0%
Gresham	14.7%	20.4%	26.7%	30.4%	22.5%
Prineville	8.2%	7.5%	14.4%	15.9%	4.5%
Scappoose	16.9%	19.5%	19.2%	14.8%	21.6%

FIGURE 16

UTILITY FEES & CHARGES AS & OF GOVERNMENT FUND REVENUE (INFLATION ADJUSTED)



The growth in enterprise funds over the 1990s represents an important trend in city budgets. Enterprise funds increased in six of the seven cities during that decade. In 2000, these funds—for utilities, city-owned airports, golf courses, swimming pools and other enterprises—provided 40 percent or more of total city revenues in four of seven cities. In 2003, enterprise funds still remained an important part of the city budget for six of the seven sample cities. Although they decreased in three of the seven cities, Enterprise funds still made up at least 23 percent of total revenue in six of the seven cities and over 50 percent of revenue in two cities (Garibaldi and Prineville).

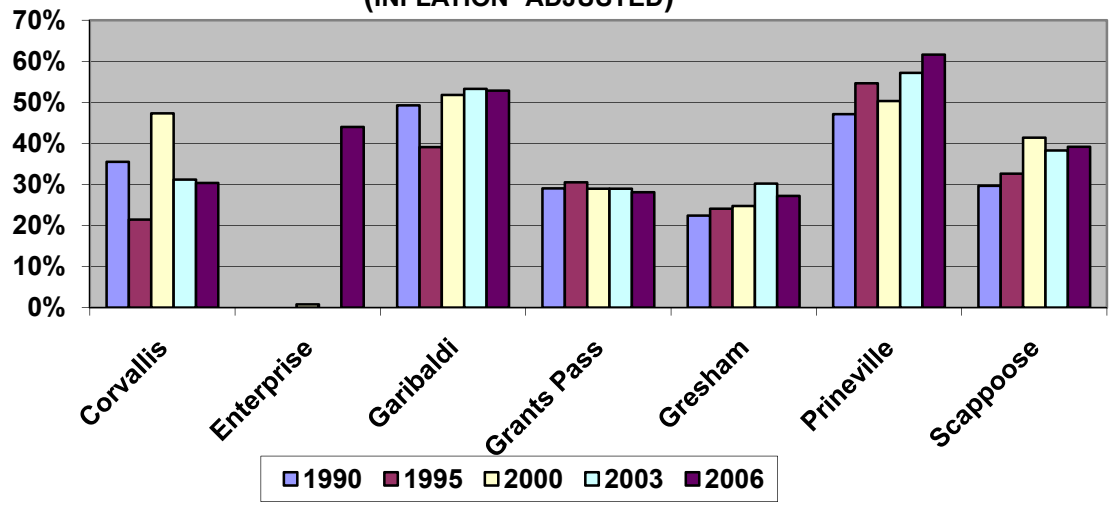
TABLE N

ENTERPRISE FUNDS AS % OF TOTAL CITY REVENUES (INFLATION ADJUSTED)

	1990	1995	2000	2003	2006
Corvallis	35%	21%	47%	31%	30%
Enterprise	0%	0%	1%	0%	44%
Garibaldi	49%	39%	52%	53%	53%
Grants Pass	29%	31%	29%	29%	28%
Gresham	22%	24%	25%	30%	27%
Prineville	47%	55%	50%	57%	62%
Scappoose	30%	33%	41%	38%	39%

FIGURE 17

ENTERPRISE FUNDS AS PERCENT OF TOTAL CITY REVENUE (INFLATION ADJUSTED)



Expenditures

Expenditure patterns were also investigated for the seven case study cities. Expenditure categories examined include total city expenditures, public safety, and capital funding. Data taken from city audit records reveal trends over the 1990-2006 study period. However, differences in service structure and accounting practices make direct city-to-city comparisons difficult. In addition, each city has different necessities as well as different mandates such as sewer and wastewater regulatory requirements, which greatly affect expenditures.

Expenditures (per capita adjusted for inflation) increased in most cities over the 1990s. During that decade, only Scappoose and Grants—experienced a steady decline in per capita spending. Since 2000, city expenditures have been more varied. Enterprise and Garibaldi have both experienced steady decreases; Grants Pass and Gresham have experienced steady increases; while the remaining cities have experienced increases in some years and decreases in others.

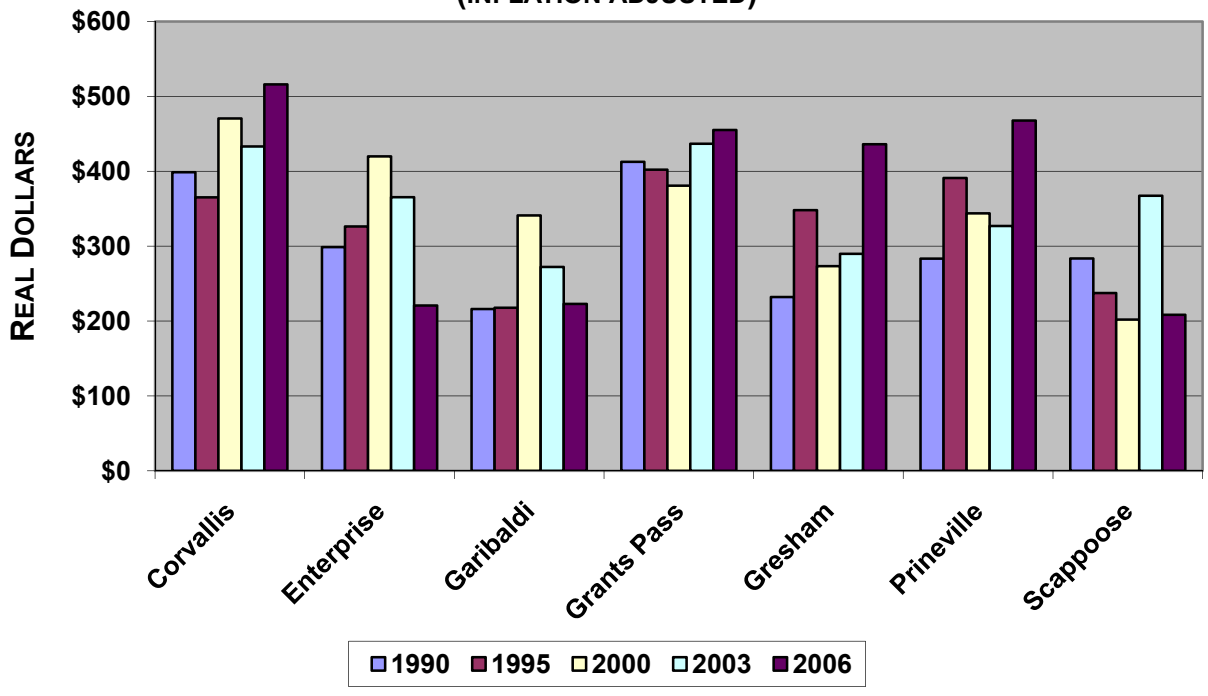
TABLE O

CITY EXPENDITURES PER CAPITA (INFLATION ADJUSTED)

	1990	1995	2000	2003	2006	Average Annual % Change 1990-95	Average Annual % Change 1995-2000	Average Annual % Change 2000-03	Average Annual % Change 2003-06
Corvallis	$399	$365	$471	$433	$516	-1.7%	5.8%	-2.7%	6.4%
Enterprise	$299	$326	$420	$365	$221	1.8%	5.7%	-4.3%	-13.2%
Garibaldi	$216	$218	$341	$272	$223	0.2%	11.3%	-6.7%	-6.1%
Grants Pass	$413	$402	$381	$437	$455	-0.5%	-1.1%	4.9%	1.4%
Gresham	$232	$348	$273	$290	$436	10.0%	-4.3%	2.0%	16.8%
Prineville	$283	$391	$344	$327	$468	7.6%	-2.4%	-1.6%	14.4%
Scappoose	$283	$237	$202	$367	$208	-3.3%	-3.0%	27.3%	-14.4%
Case Study City Average	$304	$327	$347	$356	$361	1.5%	1.3%	0.8%	0.5%

FIGURE 18

CITY EXPENDITURES PER CAPITA (INFLATION ADJUSTED)



Public Safety

Public safety expenditures appear to follow revenue trends, rising or falling proportionately as funds become available or dry up. Among key services traditionally supported by the property tax, public safety appears to be gradually taking a bigger piece of the city budget pie. At the end of the 1990s public safety (police and fire protection) represented a larger share of the budget in five of seven case study cities. Most growth occurred in the first half of the decade from 1990-95. Since 2000, this number has varied dramatically from staying flat or barely increasing in four of the seven cities to increasing greatly in one city (Garibaldi), and decreasing at least nine percent in two cities (Scappoose and Prineville). One effective action that has been taken by cities to keep public safety services has been to place an operating levy on the ballot to increase property taxes for public safety, as was done in Grants Pass.

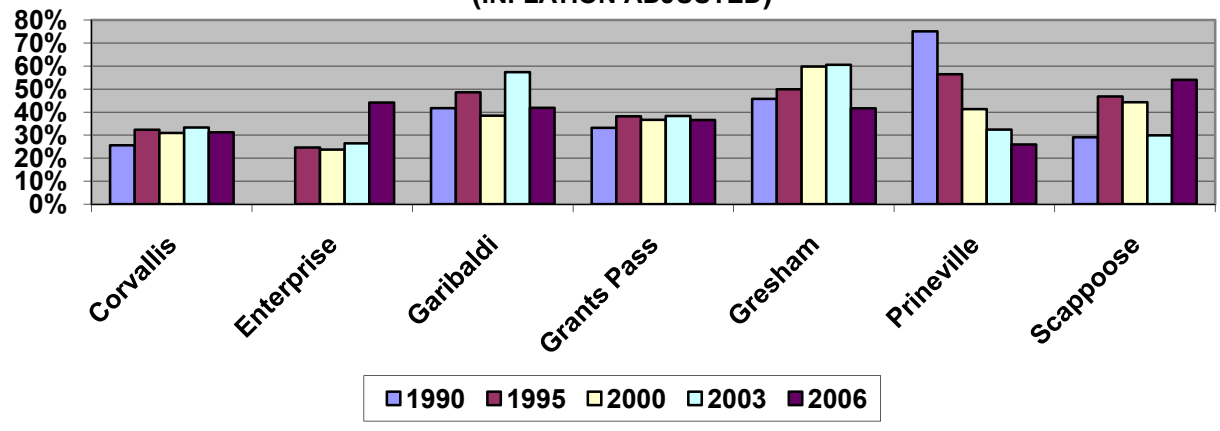
TABLE P

PUBLIC SAFETY AS PERCENT OF TOTAL EXPENDITURES* (INFLATION ADJUSTED)

	1990	1995	2000	2003	2006
Corvallis	26%	32%	31%	33%	31%
Enterprise	0%	25%	24%	26%	44%
Garibaldi	42%	49%	38%	57%	42%
Grants Pass	33%	38%	37%	38%	37%
Gresham	46%	50%	60%	61%	42%
Prineville	75%	56%	41%	32%	26%
Scappoose	29%	47%	44%	30%	54%

FIGURE 19

PUBLIC SAFETY EXPENDITURE AS A PERCENT OF TOTAL EXPENDITURE* (INFLATION ADJUSTED)



*Note: Public safety expenditures shown in city audits vary from city to city and over time, according to the services provided, which may include all or some of the following: police, fire protection, emergency services, rescue, and emergency communications.

Capital Spending

In terms c expenditures, the pattern isn't a consistent increase or decrease over time. Garibaldi has seen great variability from year to year while Grants Pass has remained fairly consistent in its level of capital expenditures. Capital spending is "lumpy" by nature, and given the variability it is difficult to identify a persistent trend (especially when studying sample cities at specific points in time).

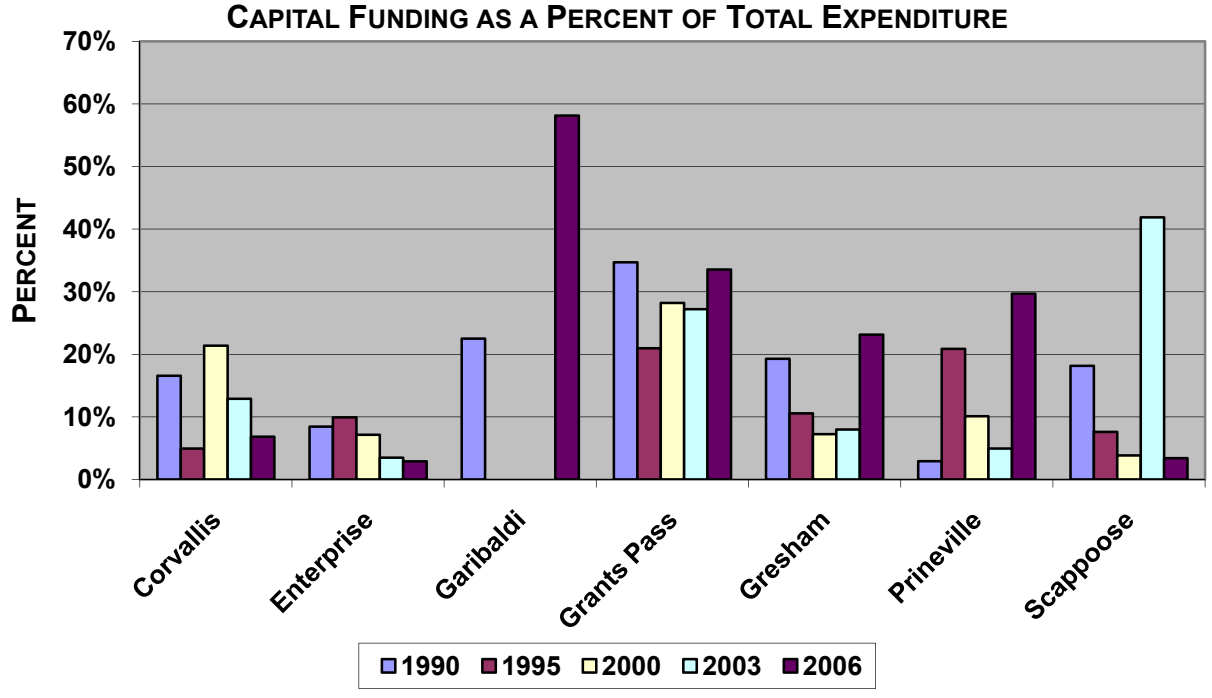
TABLE Q

CAPITAL FUNDING AS % OF TOTAL EXPENDITURES* (INFLATION ADJUSTED)

	1990	1995	2000	2003	2006
Corvallis	17%	5%	21%	13%	7%
Enterprise	8%	10%	7%	3%	3%
Garibaldi	22%	0%	0%	0%	58%
Grants Pass	35%	21%	28%	27%	34%
Gresham	19%	11%	7%	8%	23%
Prineville	3%	21%	10%	5%	30%
Scappoose	18%	8%	4%	42%	3%

FIGURE 20

CAPITAL FUNDING AS A PERCENT OF TOTAL EXPENDITURE



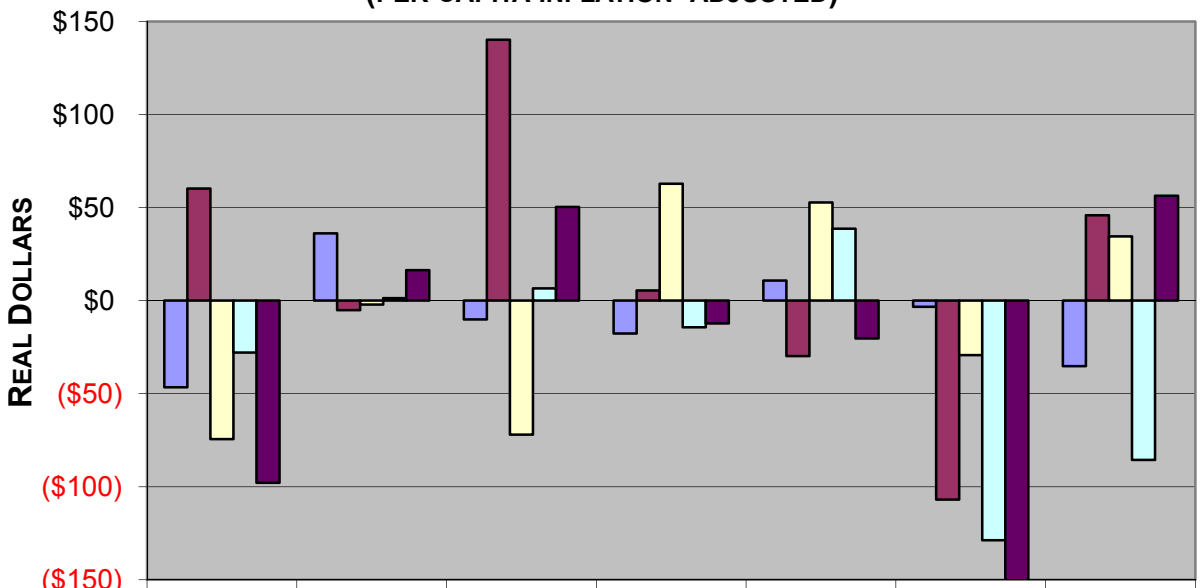
*Note: Capital funding shown is for total capital outlays, as identified in CAFRs.

The Bottom Line

This section explores how city revenue and expenditure patterns in the 1990s through the mid 2000s have affected the "bottom line"—cities' annual surpluses and ending balances. With the flattening of general fund revenues in the latter half of the 1990s, annual budget deficits have begun to reappear. Four of seven city budgets showed deficits for FY 2000, ranging from -$2 to -$74 per capita. In FY 2003, four cities were also in deficits ranging from -$14 to -$129. By 2006, four cities were in deficit and the range had increased to -$12 to -$244. (Note: Oregon budget law doesn't allow cities to budget for deficits. Accumulated ending balances from prior years and transfers from other fund balances cover the deficits shown here.)

FIGURE 21

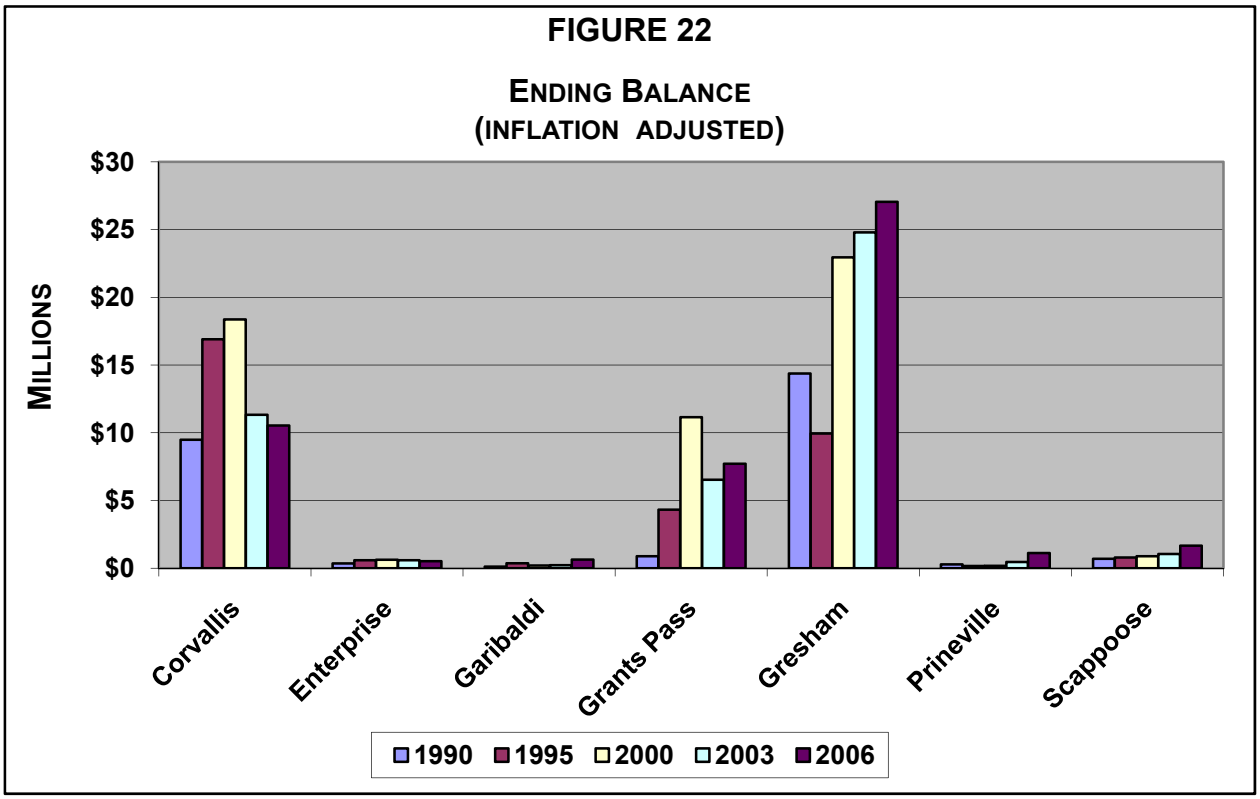
ANNUAL SURPLUS (DEFICIT)
(PER CAPITA INFLATION ADJUSTED)



	Corvallis	Enterprise	Garibaldi	Grants Pass	Gresham	Prineville	Scappoose
1990	($47)	$36	($10)	($18)	$11	($3)	($35)
1995	$60	($5)	$140	$5	($30)	($107)	$46
2000	($74)	($2)	($72)	$63	$53	($29)	$34
2003	($28)	$1	$7	($14)	$39	($129)	($86)
2006	($98)	$16	$50	($12)	($20)	($244)	$56

Ending Balances

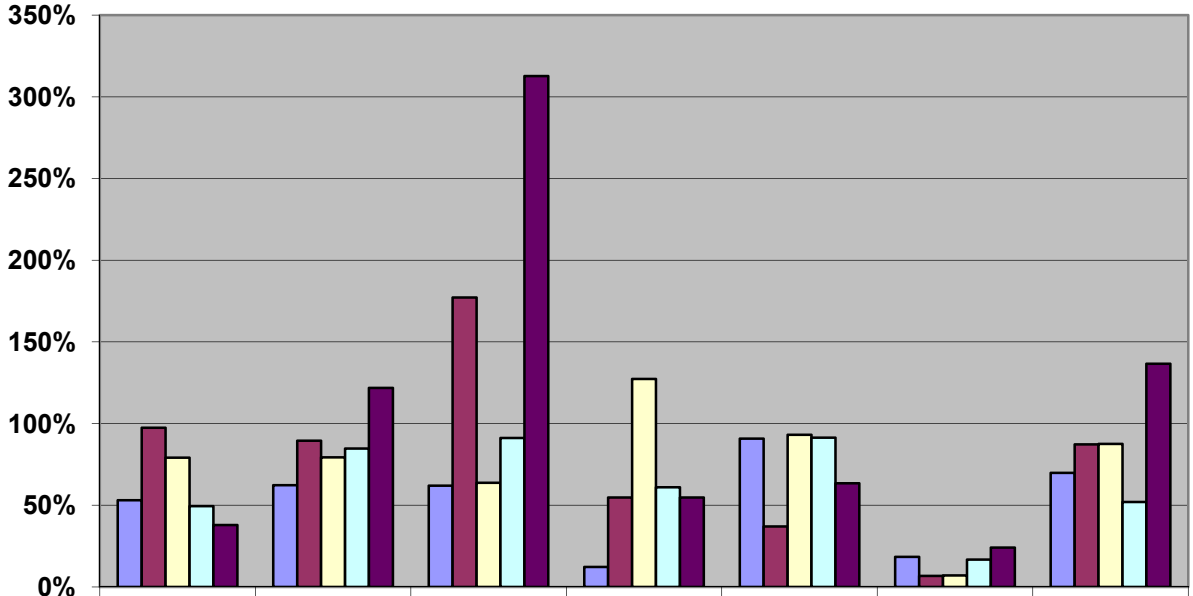
How have the revenue and expenditure trends described above affected the "bottom line" for the seven participating Oregon cities? The results show that budget ending balances for all funds (inflation adjusted, per capita) were either maintained or improved since 1990. While most cities experience little volatility from year to year, both Grants Pass and Garibaldi experienced dramatic increases in 2000 and 2006 respectively.



When looking at ending balances relative to expenditures, we can see that most cities were able to either increase ending balances over time or reduce expenditures.

FIGURE 23

ENDING BALANCES AS A PERCENT OF TOTAL EXPENDITURES

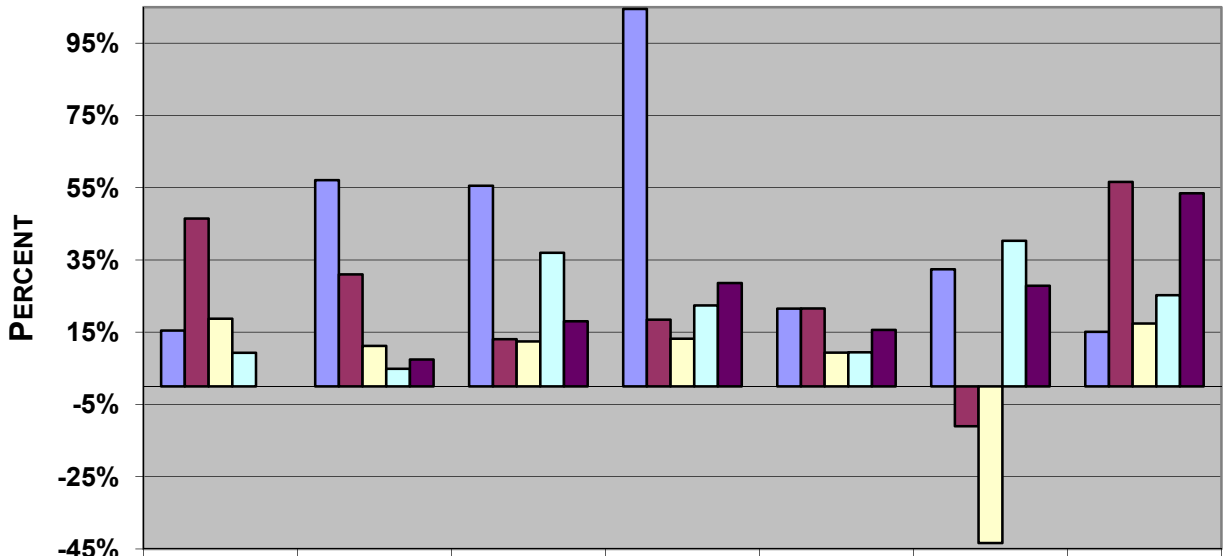


	Corvallis	Enterprise	Garibaldi	Grants Pass	Gresham	Prineville	Scappoose
1990	53%	62%	62%	12%	91%	18%	70%
1995	97%	90%	177%	55%	37%	7%	87%
2000	79%	79%	64%	127%	93%	7%	88%
2003	49%	85%	91%	61%	91%	17%	52%
2006	38%	122%	313%	55%	63%	24%	137%

Looking only at the general fund, however, ending balances (inflation adjusted) declined over the 1990s for four of the seven cities (Enterprise, Garibaldi, Gresham and Prineville.)

FIGURE 24

ENDING BALANCE GENERAL FUND AS PERCENT OF GOVERNMENT FUND ENDING BALANCE (INFLATION ADJUSTED)



	Corvallis	Enterprise	Garibaldi	Grants Pass	Gresham	Prineville	Scappoose
1990	15%	57%	56%	104%	22%	32%	15%
1995	46%	31%	13%	18%	22%	-11%	57%
2000	19%	11%	12%	13%	9%	-43%	17%
2003	9%	5%	37%	22%	9%	40%	25%
2006	0%	7%	18%	29%	16%	28%	53%

Taken together, these data suggest that cities were able to rebuild their reserves during the strong economic cycle of the early 1990s. However by the latter half of the decade—though the economy was still sound—cities were already finding it more difficult to balance their budgets. Some were forced to tap their reserves and/or defer capital spending. Only two cities—Corvallis and Grants Pass—were significantly better off at the close of the nation's longest period of sustained economic growth.

These financial weaknesses have been exacerbated in the years following the previous report. General fund ending balances decreased in three of the seven cities, and total ending balances decreased greatly in three of the seven cities. Part of the declines in total ending balances are due to capital project expenses. But projects do not account for all decreases in ending balances. Although the impacts of Measure 5 and Measure 50 were becoming evident by 2000 as stated in the original Diminishing Returns Report, they have become a major problem when combined with the recession.

Observations by Participating Cities

The seven participating cities were also surveyed to identify the most important financial and service issues they face, and the strategies in place (or being considered) to address future challenges.

The most important issues / trends the cities currently face are:

- Property tax limitations: Ballot Measures 5, 47/50 and the resulting loss in property tax revenues.
- Franchise fee legislation.
- Growth and the resulting increased demand for services as well as sources for capital funding such as SDCs and other charges for services.

Other current issues include:

- Environmental regulations.
- Decline in state shared revenues.
- Public expectations.

Issues on the horizon which may pose future challenges include:

- Property tax issues, continued shifting of traditional property tax support to fee based support resulting in initiatives that focus on cities' ability to create and/or raise fees.
- Urban renewal—challenges to tax increment financing.
- Systems development charges (SDCs).
- Annexation, local policies and state regulation.
- Need to restructure taxes or expenditure requirements such as labor law or pensions.
- Obtaining business tax revenue from the county.
- Decrease in support from state and other revenue sources.
- Increased costs for personnel benefits and the cost of doing business.

Strategies in place or suggested most often by these cities for the local level include:

- Continue to give local recipients of services options to pay for services prior to instituting service reductions.
- Utilize urban renewal or SDCs for capital improvement projects.
- Educate the public about how property taxes affect service delivery.

- Change development policies to require annexation prior to approval on new development.
- Partner with local entities, identify and create new revenue sources, look for ways to improve upon efficiency.

Statewide strategies suggested by the seven cities:

- Have local government financing or expenditure reform on the table, similar to secondary, higher education and state services.
- Protect city ability to charge current "franchise fees."
- Do not restrict or reduce cities' ability to annex.
- Work with the League of Oregon Cities and Association of Oregon Counties to discuss amending at the state lever how property is assessed.
- Remain involved with state agencies, LOC and lobbyists.

Expectations for city services in 2016:

- All cities expect diminished levels of city services that must be funded through general fund revenues. Some cities expect the development of service districts to restore service levels.

Potential for development within city limits:

- A majority of cities see potential for development within the city limits. Two cities that have limited space see potential for re-development.

Potential for development within urban growth boundary:

- Some cities expect to annex land while some already have.

In addition to lobbying to maintain local revenue authority, limit PERS expenses, keep franchise fees, etc., what can the LOC do to help cities deal with the financial issues they are facing?

- Maintain an awareness of city needs and fiscal conditions at the state Legislature and promote legislative discussions about what can be done to alleviate or fix the situation that Oregon cities and counties are in as a result of property tax revenue issues.
- Protect the ability of cities to annex area in the urban growth boundaries.

VI. LOOKING AHEAD

The 1990s provided a "roller coaster" ride for many Oregon cities. The financial condition for most cities improved in the early years of the decade (1990-1995). In the latter half of the decade, feeling the effects of property tax limitation measures, cities' finances eroded once again. The recession of 2001 also had a negative impact on city finances. While the recovery of the economy was slow through 2003, since then the economy has generally been in a state of expansion with falling unemployment and increased gross state product in Oregon.

What is the outlook for the next decade? How will the impacts of the property tax measures continue to be felt by cities? How will cities' other revenue sources fare, and will Oregon's cities be able to keep up with growing cost pressures?

This section attempts to look ahead, exploring the outlook for city revenues and costs over the coming decade. Specific financial elements reviewed for this forecast include:

- Economic Trends
- Demographic Trends
- Property Tax Trends
- Trends for Other Sources of City Revenue
- Trends for City Service Demands and Costs

Economic Trends

Baseline employment and personal income are expected to grow at annual rates of about 1.5 percent and 5.8 percent respectively through 2009. Although Oregon's housing market is strong, the recent credit crunch and softening housing prices in California and/or other regions is placing downward pressure on Oregon's housing market. Inflation rates are currently at the high end of the Federal Reserve's comfort zone but the expectation is that a softening economy and falling oil and gasoline prices will help ease inflation pressure. If the economy does not soften, the Federal Reserve could raise interest rates to reduce inflation, which would slow down the U.S. and Oregon economies as higher interest rates hurt consumers and businesses.[13]

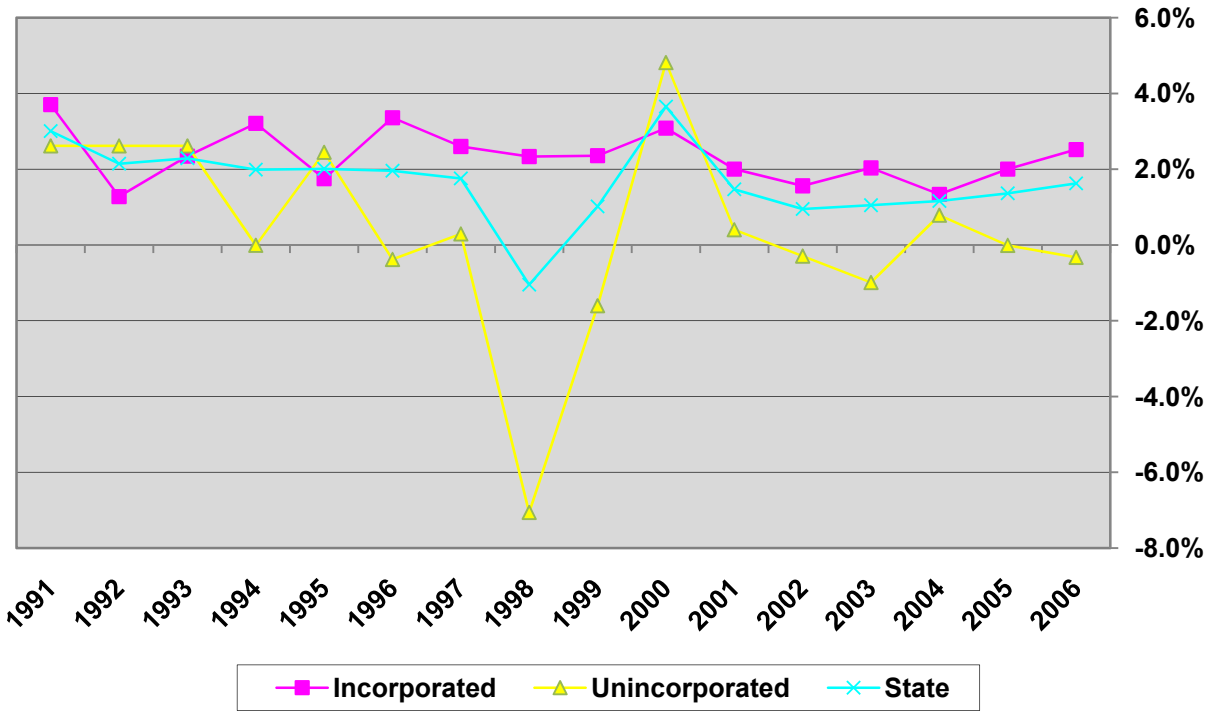
[13] Source: *"Oregon Economic and Revenue Forecast"*, Department of Administrative Services, Office of Economic Analysis, September 2007, Volume XXVII, No. 3.

Demographic Trends

Looking toward 2010, most demographic trends appear to present further challenges for Oregon cities. Oregon, along with most of the Pacific Northwest, is expected to continue a period of sustained population growth, placing more pressure on local services. According to the Oregon Economic and Revenue Forecast for September 2007, population growth will continue to grow above the national average at about 1.4 percent through 2013 due in most part to in-migration to Oregon. This is a sign of a strong state economy. Oregon's population growth has been concentrated in cities and this trend is expected to continue, as will the transition from unincorporated to incorporated areas. The population of Oregon's unincorporated areas declined in five of the last eight years, while population increased about 2 percent annually in cities.

FIGURE 25

OREGON POPULATION IS GROWING FASTER IN CITIES



Growth in numbers of Oregon's children and young adults will be low creating less demand for education and other services. The number of prime wage earners and older wage earners (i.e., taxpayers) is expected to increase at a moderate rate. The growth in the elderly population is expected to be quite high.

TABLE R

OREGON DEMOGRAPHIC TRENDS: 2008 – 2013

Demographic	Average Annual Growth Rate
State of Oregon	1.4%
Children (0-4 years)	1.37%
K-12 (5-17 years)	.51%
Young adults (18-24 years)	.69%
Criminally "at risk" population (males 15-39 years)	.91%
Older wage earners (45-64 years)	1.15%
Prime wage earners (25-44 years)	1.31%
Elderly population (65+ years)	3.64%

Source: Oregon Economic and Revenue Forecast, Oregon Department of Administrative Services, September 2007.

Property Tax Trends

For most Oregon cities, the longer-term outlook for property tax revenues is not bright. As many cities experienced the effects of Ballot Measures 5 and 47/50, revenues from this source were flat when adjusted for inflation and population growth. This same pattern is projected to continue. Oregon cities recognize they can no longer rely on the property tax. Among the cities surveyed, only 6 percent are taking actions to increase their property taxes in 2006-07, compared to 29 percent of cities nationwide.

Four additional factors have had and will continue to have a growing impact on property tax revenues in the future:

- Cities reaching Measure 5 tax limits;
- Cities unable to capture the full 3 percent annual growth in assessed value allowed by the constitution under Measure 50;
- Increasing numbers of property tax exemptions; and
- Losses due to the property tax change ratio.

Under Measure 5, combined property taxes for local governments (non-schools) are limited to a maximum of $10 per $1,000 of real market value. Property taxes above this $10 limit on any property place the taxing governments in "compression" and they are unable to collect the full amount of their assessed taxes for the affected properties.

The number of cities experiencing compression has grown by 71 percent since the 1999-2000 fiscal year. The loss in tax revenue dollars has grown by 269 percent. These numbers are expected to continue to grow steadily over the coming years. A growing number of communities will be affected by Measure 5 tax limits ("compression"), particularly if there is an increase in the number of special service districts with taxing authority. Local option levies must be periodically renewed or they will expire. Competition among districts on general election ballots for votes on local option levies, together with the increasing impacts of compression, makes local option property taxes a less viable revenue source.

TABLE S

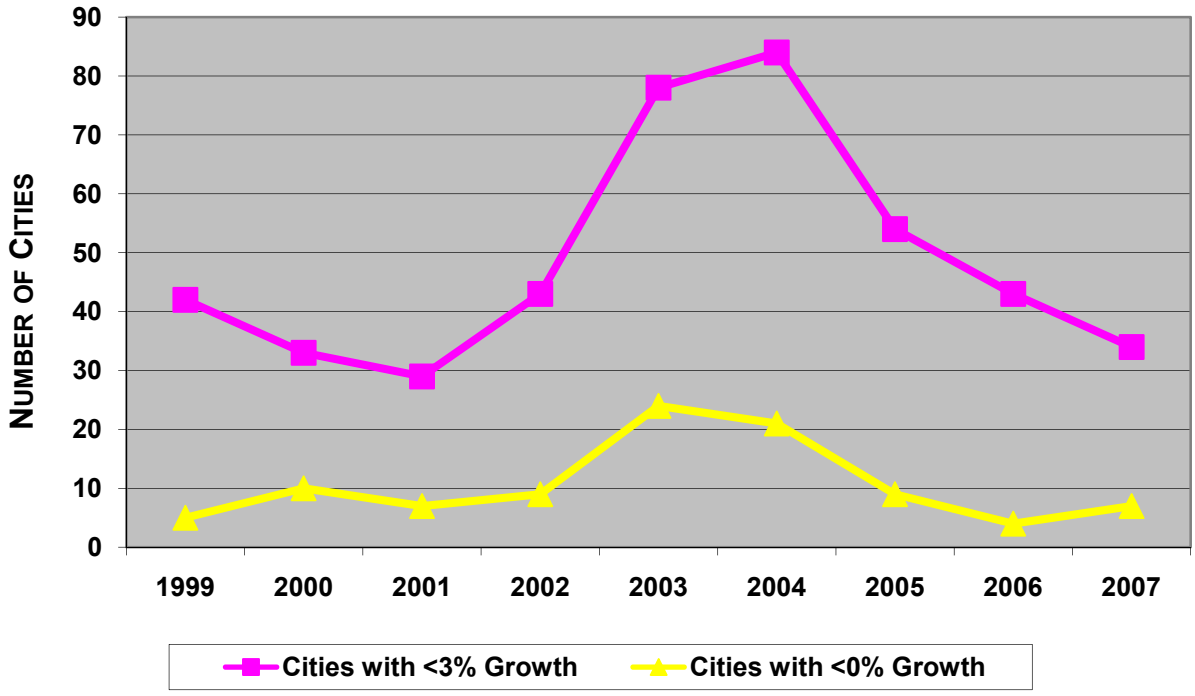
CITIES UNDER COMPRESSION

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Number of cities affected by compression	89	123	128	137	143	160	147	152
Revenue loss due to compression	4,398,055	5,409,691	5,825,209	9,838,663	21,970,142	19,556,093	16,119,670	16,245,387

Even before the 2001 economic downturn, a significant number of Oregon cities had not been reaching the full 3 percent growth in assessed value allowed under Measure 50. In 1999-2000, 33 of Oregon's cities collecting property tax failed to reach 3 percent growth while 10 experienced negative growth. Conditions continued to worsen through the recession of 2001 and the slow recovery that did not pick up steam until after 2003. The growth decline was its worst in 2003-2004 when 84 cities failed to achieve 3 percent growth and 21 experienced negative growth. As the economy grew, conditions improved, and in 2006-2007 only 34 cities experienced less than 3 percent growth and only 7 experienced negative growth.

FIGURE 26

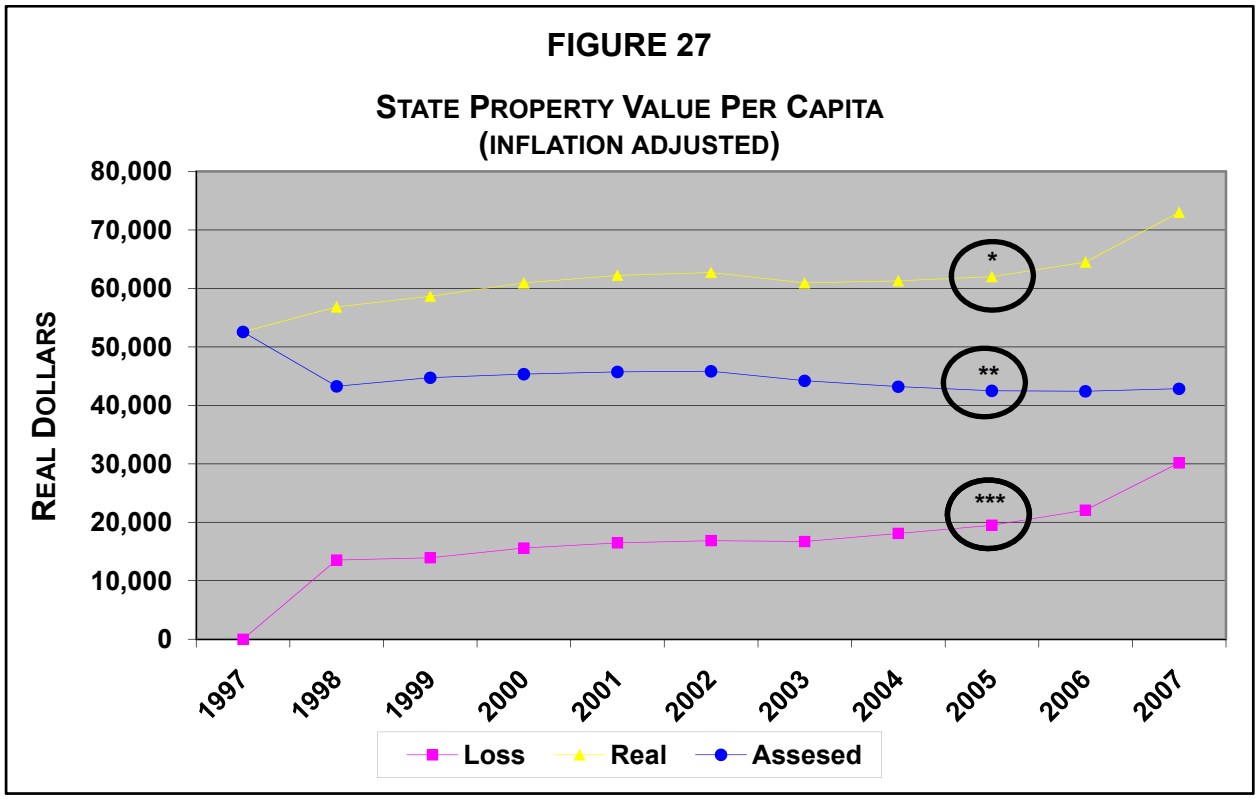
ASSESSED PROPERTY VALUATION GROWTH TRENDS IN OREGON CITIES



As mentioned above, the evidence does not suggest that the recession of 2001 and slow recovery through 2003 were the primary cause of low or negative assessed property values. As can be seen on the graphs that follow, while real property values did slow during and after the recession, they have an average 2.9 percent annual growth. The loss in revenue due to the difference between real and assessed values has been especially prevalent over the last three years.

FIGURE 27

STATE PROPERTY VALUE PER CAPITA (INFLATION ADJUSTED)

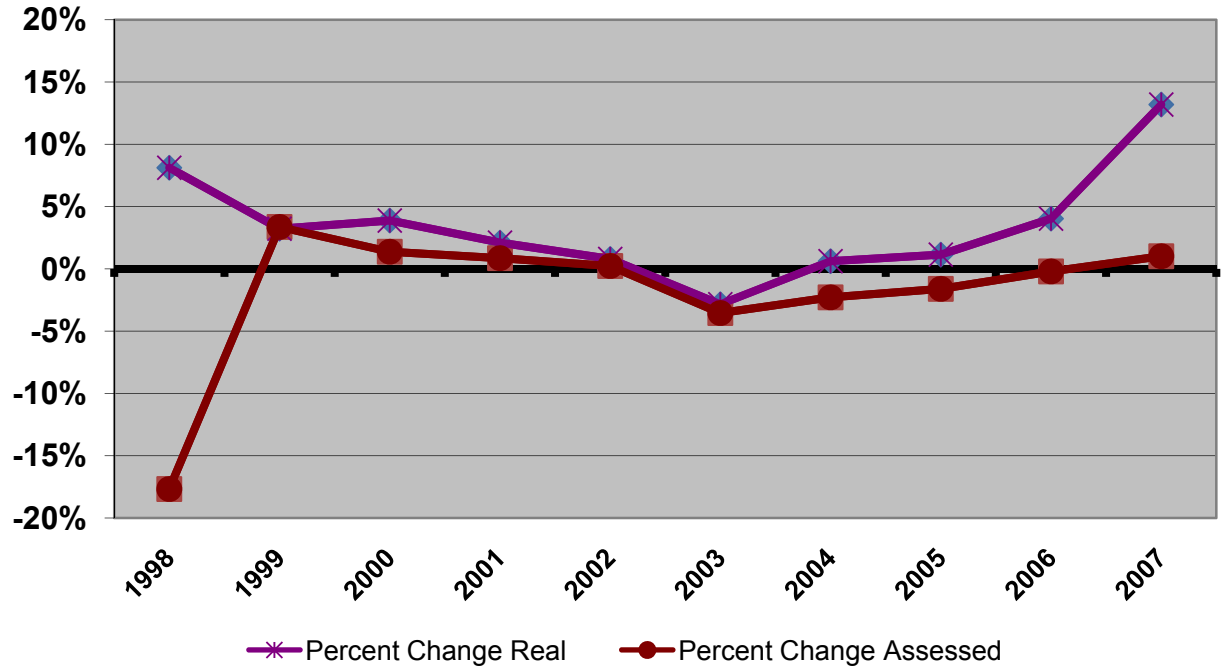


*Real property values have averaged 2.9% annual growth since M50 (1997)
**Assessed property values have averaged -0.1% annual growth since M50 (1997)
***The loss in revenue due to the difference has been steadily increasing.

The difference in growth rates between real market and assessed values has been steadily increasing since 2003, compounding the revenue loss associated with the Measure 50 limitations.

FIGURE 29

PERCENT CHANGE IN STATE PROPERTY VALUATION PER CAPITA (INFLATION ADJUSTED)



There have also been a growing number of tax exemptions over the years, adding to the revenue losses mentioned on the previous page.

TABLE T

TAX EXEMPTIONS

Biennium	# of Exemptions	Revenue Loss ($ Thousands)	
		STATEWIDE	CITIES* (Estimated)
2007-09	122	18,726,500,000	4,400,000,000
2005-07	120	17,962,600,000	4,200,000,000
2003-05	117	16,044,450,000	3,700,000,000
2001-03	107	14,337,850,000	3,200,000,000
1999-01	101	13,615,790,000	3,150,000,000
1997-99	102	4,476,915,000	1,000,000,000

Finally, the property change ratio associated with valuing new construction has also had a negative effect on property tax revenues.

City of Redmond:
Real Market vs. Assessed Value

Tax liability on two identical homes purchased two years apart:

Year Purchased	Purchase Price	RMV/AV Ratio	AV in year of purchase	2006 AV	2006 Tax Bill
2004	$150,000	69.4%	$104,100	$110,400	$1,913
2006	$202,000	52.5%	$106,000	$106,000	$1,835

Trends for Other Sources of City Revenue

Detailed and reliable forecasts are not available for the other typical city revenues. However, the general outlook is clear for some sources over the coming decade. Among the few bright spots are enterprise funds, sales and use fees, and fines and penalties. Enterprise funds provided a major source of revenue growth for Oregon cities in the 1990s.

It must be noted that the sunny outlook for these revenue sources will not greatly benefit cities' depleted general funds. Enterprise fund revenues are usually not eligible for discretionary use. The other options (user fees, fines, etc.) do not represent major revenue producers.

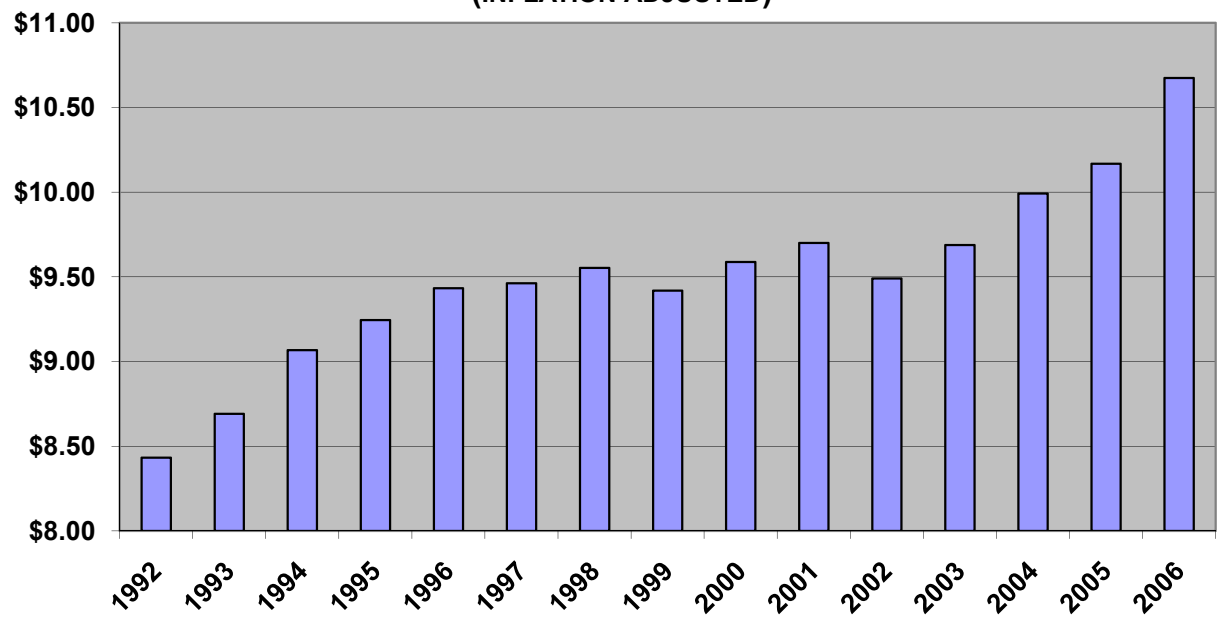
Economic expansion, if it persists, should have a positive affect on business tax proceeds (for those cities levying business taxes). Additionally, tourism revenues should increase in most communities. Transient lodging tax revenues—which have been a dependable revenue source for many cities in the 1990s—are also impacted by recession. In the final quarter of 2001, the travel industry was reportedly off as much as 50 percent in some parts of Oregon. This tax was limited by the 2003 Legislature and new uses of revenues from this source are limited. Rates have increased somewhat since the turn of the millennium. When adjusting for inflation and population growth, we see the revenue source was for the most part stagnant from 1997-2003. However, since 2004 per capita revenues have been increasing.

FIGURE 29

TRANSIENT LODGING RATES

FIGURE 30

TRANSIENT LODGING RECEIPTS PER CAPITA
(INFLATION ADJUSTED)

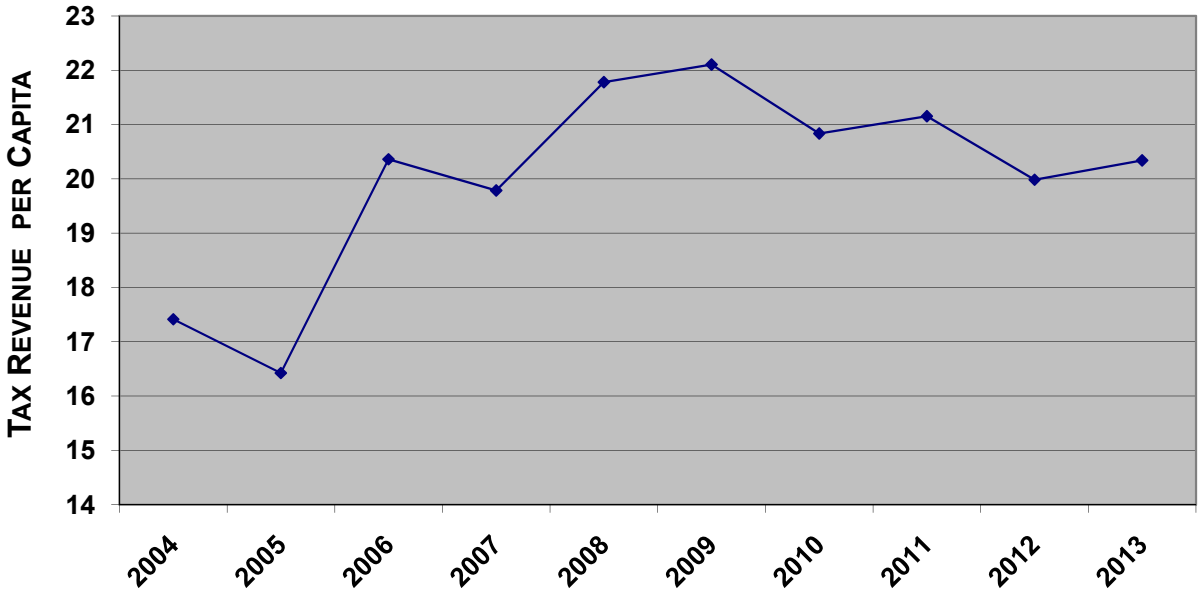


Another revenue source, closely related to the property tax, is tax increment financing proceeds generated in designated urban renewal districts. Urban renewal revenue potential has been undermined by a recent Oregon court decision, placing urban renewal more directly in competition with other property taxing districts. Urban renewal may be questioned by cities (and others) because of its impact on limited general fund revenues.

State shared revenues are another concern for cities. In contrast to the property tax, state shared revenues increased steadily over the 1990s. This revenue source – state funds transferred to cities—grew faster than inflation throughout the five-year period 1995-2000. However, city population growth exceeded the growth in revenues; as a result, the growth on a per capita basis was limited. Estimates for the next few years appear to be less promising. Current LOC forecasts anticipate that state shared revenues will flatten, and likely decline. The graph below is not adjusted for inflation but is based on per capita estimates of 2 percent growth in cities.

FIGURE 31

CIGARETTE & LIQUOR REVENUES PER CAPITA AVAILABLE TO ALL CITIES (NOT ADJUSTED FOR INFLATION)



The following city revenues with uncertain forecasts because of potential future instability during the next decade:

- Utility franchise fees, with their future clouded by litigation and legislative proposals to minimize or eliminate them.
- Building and development permits and SDCs, which may be impacted by an economic slowdown or face opposition to further rate increases.
- One-time revenues, such as property sales, which (as the category implies) do not present potential for ongoing improvements to cities' balance sheets.

Trends for City Service Demand and Costs

Along with the decline in revenues, Oregon cities are threatened by many pressures that are creating unprecedented costs for municipal budgets. These include:

- Structural changes in the state's economy away from natural resources. In general, Oregon's economy is becoming more technology based and is therefore susceptible to economic downturn caused by volatility in the technology sector.
- Increases in total personnel-related costs, including required pension contributions and health benefit costs, which are both increasing much faster than inflation. This includes PERS contributions.

- Rise in energy costs, especially gasoline.
- Environmental mandates taking effect in more communities.
- Growing population, increasing demand for services.
- Uncertain results from mandatory binding arbitration for public safety employee.
- End of COPS grant funding in some cities.
- Unquantifiable expenses related to homeland security/terrorism response.

Much of the cost for personnel salaries and benefits—the major component of budgets for city services—remain outside the direct control of city officials in several respects. Oregon public employers are required by state law (ORS Ch. 243) to enter into collective bargaining on wages, hours and conditions of employment with their employees who choose to organize for bargaining purposes. In the case of police officers, firefighters and certain emergency service workers, the law provides, in lieu of the right to strike, compulsory binding arbitration to resolve bargaining disputes. Although specific figures for public employees are not available, Oregon's average wage rate for all sectors is expected to increase at an average of 3.68 percent annually between 2008 and 2013.[14]

PERS raised employer rates over the past several years. While new "tiers" of employee benefit groups have been established and legislation to stabilize earnings and losses has been adopted, the cost for cities is significant.

While infrastructure costs are generally not attributable to a city's general fund, spending on infrastructure limits the capacity for spending on other services. For example, if a city raises sewer rates to fund construction of a new wastewater treatment plant, it may reduce the ability or willingness of its citizens to take on additional expense for general government services.

Service and Cost Pressure

- Population growth will continue placing pressure on services.
- Lower investment earnings will likely lead to increased PERS contributions.
- Environmental mandates will affect more communities.
- Health care costs will continue to rise substantially faster than inflation.
- Three-year federal COPS (Community Oriented Policing Services) grants are running out for cities that received them, although the requirement to keep the officers remains
- Response to terrorism may place new emphasis on public safety, creating unforeseen costs.

[14] Source: Oregon Office of Economic Analysis, March 2008 Economic and Revenue Forecast, p. 31.

VII. APPENDICES

Appendix A. Steering Committee and Technical Advisory Panel (2001 – Original Report)

A 17-member Advisory Committee for the City Center @ LOC was assigned to oversee the statewide financial research. Committee members included mayors, city council members, city managers and key staff from cities across Oregon. A list of Project Steering Committee members appears below. In addition to the Project Steering Committee, a panel of technical advisors was enlisted to provide independent professional financial expertise. This 12-member panel of professionals contributed to the research design and critiqued preliminary findings and reports. Members of the Technical Advisory Panel are also listed below.

Project Steering Committee

- Wes Hare, Chair, City of La Grande
- Helen Berg, City of Corvallis
- Barton Brierley, City of Newberg
- Scott Burgess, City of West Linn
- Duane Cole, City of Newberg
- Julie Krueger, City of The Dalles
- Chris Lassen, City of Gresham
- Kate Mast, City of Cascade Locks
- Jon Nelson, City of Corvallis
- Rebecca Reid, Southern Oregon University
- Mark Seltman, City of Athena
- Stephanie Smythe, City of Salem
- Brent Steel, Oregon State University
- Scott Taylor, City of Canby
- Randy Wetmore, City of Roseburg
- Matt Winkel, City of Bandon
- Lynn McNamara, LOC

Technical Advisory Panel

- Carol Benedict, City of McMinnville
- Nancy Brewer, City of Corvallis
- Linda Burglehaus, Multnomah County Tax Supervisory Commission
- Rebecca Marshall Chao, Regional Financial Advisors
- Lance Colley, City of Roseburg
- Jeff Faw, City of Medford
- Mark Gardiner, Western Financial Group
- Terry McCall, City of Gresham
- Rich Munn
- Ken Rust, City of Portland
- Kathy Tri, City of Newberg
- Gary Wallace, City of Wilsonville
- Bruce Weber, OSU Extension Service

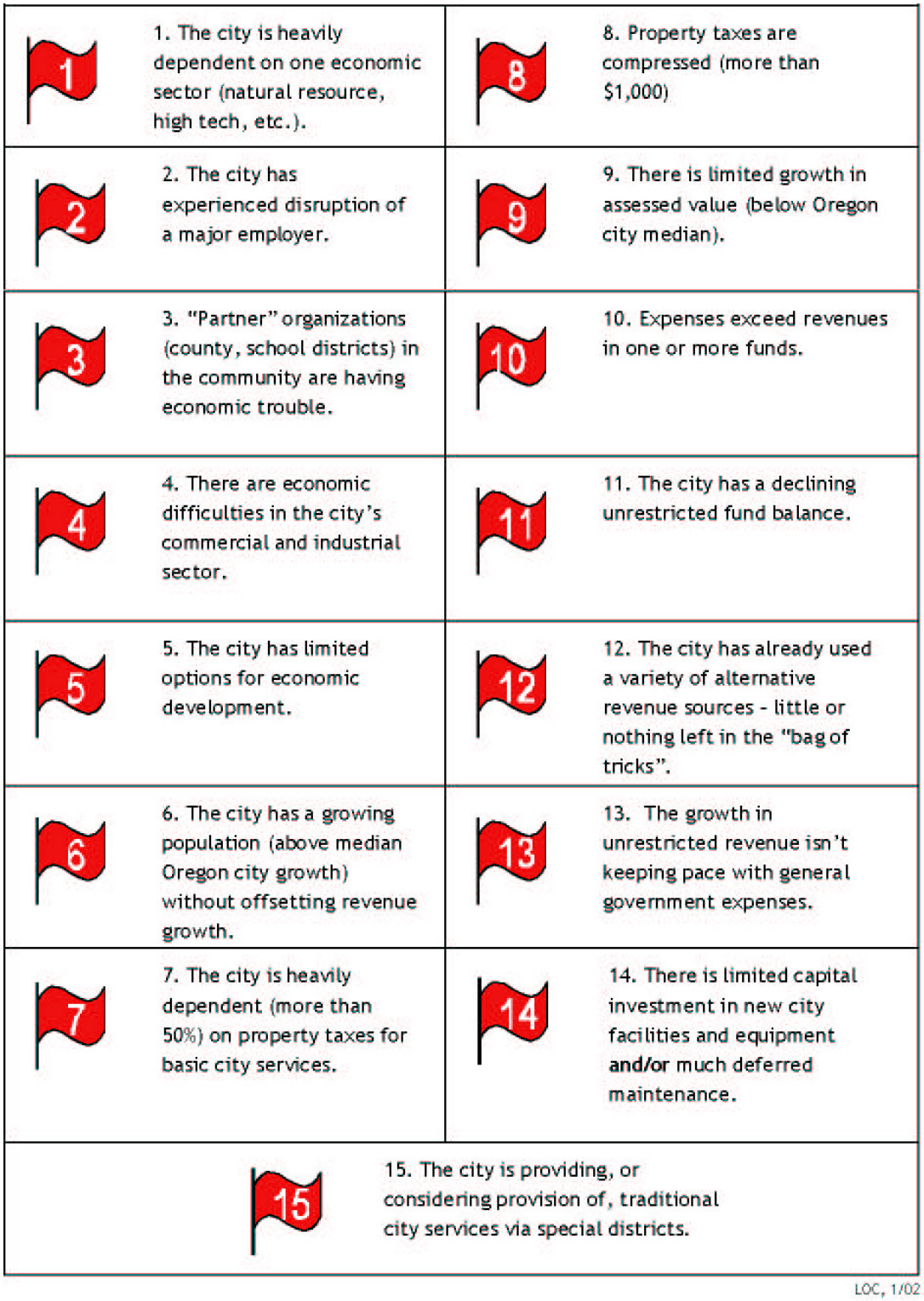
Appendix B. Methodology

The purpose of the study is to examine current financial conditions for Oregon cities, then forecast their future revenue and service requirements through 2016, assuming that current revenue structures and constraints remain unchanged.

The original study was conducted by the consultant team in collaboration with the Steering Committee and LOC staff. The 2007 follow-up study was conducted by LOC staff. Key stages included:

- *Preliminary Research:* State and national data sources were compiled and reviewed for pertinent information regarding the financial condition of cities, both in Oregon and across the nation. Annual surveys conducted by the National League of Cities in 2001 and 2006 assess the financial conditions of 325 and 385 U.S. cities respectively, and provided a basis for comparison.
- *LOC – Financial Forecast for Oregon Cities Survey:* In 2001, all 238 LOC member cities were invited to respond to a survey that examined: (1) The most important positive/negative factors affecting city revenues and expenditures since 1990, (2) Impacts on cities of property tax limitation measures passed by voters in the 1990s, (3) Cities' current and proposed actions to increase revenues and/or change service levels, and (4) an overall assessment of cities' financial conditions (are cities better able or less able to meet financial needs?). Responding to the survey were 109 cities representing a cross-section of Oregon communities—different sizes, different rates of growth, different geographic areas, and different financial conditions. In 2007, the same survey was administered to all 241 LOC member cities; 128 cities responded.
- *LOC – Financial Forecast (Extended) Survey:* In 2001, seven cities of varying sizes and characteristics in different parts of the state participated in "case studies," providing more extensive quantitative and qualitative information. This extended survey included requests for financial data for fiscal years 2002-03 and 2005-06 as well as overview questions regarding financial trends, predictions and strategies. For these cities, the consultants evaluated the varying impacts on city funding and services of such factors as growth, economic vitality, revenue diversity, and externally driven costs. This same group of cities was used for the 2007 update of the original report.
- *Interim Report:* An interim report was presented at the annual LOC Conference in Eugene in November 2001 and to the LOC and OCCMA (city managers association) Boards of Directors for their review in early 2002.
- *Updated Report*: Based on the data in the original report, the information was updated through FY 2007 with new information provided by the seven case study cities along with information collected from the 128 cities that responded to the 2007 survey. The same factors that were studied in the previous report have been updated. All adjustments for inflation in the updated report were based on the following consumer price index as reported by the Oregon Department of Revenue: Non-Seasonally Adjusted, CPI-U, Portland-Salem, OR-WA, All Items, Base Period: 1982-84=100.

Appendix C. Community Distress Signals



Source: League of Oregon Cities

Appendix D. Survey of Oregon Cities 2007

Cities Responding – 128 (at time report written)

Adair Village
Albany
Amity
Antelope
Astoria
Aumsville
Baker City
Bandon
Banks
Beaverton
Boardman
Bonanza
Brownsville
Burns
Canby
Cannon Beach
Cascade Locks
Cave Junction
Central Point
Clatskanie
Columbia City
Condon
Coos Bay
Corvallis
Cottage Grove
Drain
Dundee
Echo
Enterprise
Estacada
Eugene
Fairview
Florence
Garibaldi
Gaston
Gates
Gladstone
Glendale
Gold Hill
Grants Pass
Happy Valley
Helix
Hermiston
Hillsboro
Hines
Independence
Irrigon
Island City
Johnson City
Junction City
Keizer
Klamath Falls
La Grande
Lebanon
Lincoln City
Lyons
Malin
McMinnville
Mill City
Millersburg
Milton-Freewater
Milwaukie
Monmouth
Monroe
Monument
Mosier
Mt. Angel
Myrtle Point
Newberg
North Bend
North Plains
Ontario
Pendleton
Philomath
Pilot Rock
Port Orford
Portland
Rainier
Reedsport
Richland
Roseburg
Sandy
Scappoose
Scio
Seneca
Shady Cove
Sheridan
Sherwood
Siletz
Spray
St. Helens
Stayton
Sublimity
Sutherlin
Sweet Home
Talent
Tangent
Troutdale
Tualatin
Union
Unity
Vale
Veneta
Warrenton
Weston
Wheeler
Wilsonville
Woodburn
Yachats

Appendix E. Diminishing Returns Update 2007 Survey

City Name: _____
Your Name: _____
Position: _____
Phone: _____
Fax: _____
E-Mail: _____

1. Property tax limitations adopted in the 1990s:

True	False	
		Have affected your city revenues and services very little
		Have had little effect to date, but will impact city revenues and services more greatly in the future
		Have already negatively impacted city revenues and services

2. What three factors besides M5 and M47/50—positive or negative—have most affected your city **revenues** since 1990?

	No Answer	Positive	Negative	Both	List Factors Here
1					
2					
3					

3. What three factors besides M5 and M47/50– positive or negative – have most affected your city **expenditures and services** since 1990?

	No Answer	Positive	Negative	Both	List Factors Here
1					
2					
3					

4. What revenue action(s) is your city undertaking for FY 2007-2008, or considering for the future?

Revenue Action	When			What		
	2007	Future	No Plans	Increase	Decrease	No Change
Number/level of fees & charges						
Number/level of SDCs or development fees						
Property taxes						
Business taxes/rates						
Other taxes/rates						
Creation of service district						
Operating levy						
Other actions (please list):						

5. What expenditure/service action(s) is your city undertaking for FY 2007-2008, or considering for the future?

Expenditure/Service Action	When			What		
	2007	Future	No Plans	Increase	Decrease	No Change
City service levels						
Contracting out services						
Productivity levels						
Interlocal agreements						
Infrastructure spending						
Operating spending						
Public safety spending						
Pension/health care spending						
Other actions (please list):						

6. Is your city better able/less able to meet financial needs this year than last year and why?

…and do you expect your city to be better able/less able to meet financial needs next year and why?

7. Do you have any other comments or suggestions to assist LOC in addressing financial issues facing Oregon cities?

8. Please provide the following data (as reported in the CAFR) regarding city revenues and expenses. (Note: Corvallis, Enterprise, Garibaldi, Grants Pass, Gresham, Prineville, and Scappoose only need to submit data for 05-06.)

Fiscal Year	89-90	94-95	99-00	02-03	05-06
Revenues Distribution - Survey Funds					
All Taxes					
Property Tax					
Other Tax					
Licenses and Permits					
Intergovernmental/Grants					
Special Assessments/Utility/Franchise/Charges for Service					
Other / Miscellaneous					
Total Revenue					
Revenue by Fund Type					
General Fund					
Special Revenues					
Debt Service					
Capital Funds					
Fiduciary/Expendable Trusts					
Enterprise					
Tax Revenues Distribution - Survey Funds					
General Fund					
Special Revenues Fund					
Debt Service Fund					
Capital Fund					
Expenses Distribution - Funds					
Administration					
Public Safety					
Economic/Community Development/Planning					
Public Works/Roads					
Parks/Library/Cultural					
Other / Miscellaneous					
Contingency					
Debt Service					
Capital Outlay					
Unappropriated					
Expenditures by Fund Type					
General Fund					
Special Revenues					
Debt Service					
Capital Funds					
Fiduciary/Expendable Trusts					

Please return to the League of Oregon Cities
by August 24, 2007

Appendix F. Glossary of Financial and Tax Related Terms

Assessed Valuation	The value set on real and personal property as a basis for imposing taxes. It is the lesser of the property's maximum assessed value or real market value.
CAFR	**C**omprehensive **A**nnual **F**inancial **R**eport. Compiled annually for each community by the Oregon Secretary of State's Office, the report for a given fiscal year includes the audited financial statements of the local government.
Capital Outlay	Expenditure items which generally have a useful life of one or more years, such as machinery, land, furniture, equipment, or buildings [ORS 294.352(6)].
Compression	The process of reducing taxes extended on a property so that they fall within the Measure 5 constitutional limit of $5 per thousand dollars of real market value for education and $10 per thousand dollars of real market value for general government. City taxes fall, along with those of all other non-school taxing districts, into the general government category, which represents taxes for the purpose of funding government operations that are not public schools and not for funding an exempt bonded indebtedness.
Ending Balances	The fund equity of government funds at the end of a fiscal year (July 1 - June 30).
Enterprise Fund	A fund established to account for operations that are financed and operated in a manner similar to private business enterprises. They are usually self-supporting. Examples of enterprise funds are those for: water, wastewater, gas and electric utilities; swimming pools; airports; parking garages; transit systems; and ports [OAR 150-294.352(1)].
Franchise Fees	Fees paid by a company or utility provider for the use of the public right-of-way (generally streets or other public property) managed by cities. Where a franchise is not granted, a company or utility provider may instead pay a privilege tax for the use of the public right-of-way.
GO Bond	A financing mechanism, **g**eneral **o**bligation bonds are taxable or tax-exempt bonds that are backed by the general "faith and credit" of the issuing entity to assure repayment of the bonds.

General Fund A fund used to account for most of a local government's fiscal activities except for those activities required to be accounted for in another fund [OAR 150-294.352(1)].

Local Option Levy Taxing authority that is voter-approved by a double majority (unless the election is held in November of even-numbered years), and that is in addition to the taxes generated by the permanent tax rate. It is limited to five years unless it is for a capital project, then it is limited to the expected useful life of the project or ten years, whichever is less.

Measure 50 A constitutional amendment passed in 1997 by Oregon voters. This amendment limited the growth in property value that could be taxed. It also limited districts' taxing authority by creating permanent rate limits (see "permanent rate," below). Measure 50 set a Maximum Assessed Value, the taxable value limitation placed on real or personal property by the constitution. It is adjusted each year to reflect changes in real market value, with a maximum increase of 3 percent annually and no limitation on decrease. The 3 percent limit may be exceeded if there are qualifying improvements made to the property, such as a major addition or new construction.

Measure 5 A constitutional amendment passed in 1989 by the Oregon voters. This amendment limited the amount of tax that could be applied to a property to $5 for education purposes and $10 for general government purposes. The tax is based on the "Measure 5 value." For property assessed at its full market value under Measure 5, Measure 5 value will be equal to Real Market Value (RMV). For specially assessed property, Measure 5 value is the statutorily set value at which the specially assessed property would have been taxed under the Measure 5 system. It also is referred to as Specially Assessed Value (SAV).

Permanent Rate The maximum rate of ad valorem property taxes that a taxing district can impose, expressed in dollars per thousand of assessed value. Permanent rates were either computed for existing districts by the Department of Revenue in 1997-98 or were voter-approved for new districts and districts that have never imposed an ad valorem tax. Taxes generated from the permanent rate limit can be used for any purpose. No action of the local government or local voters can increase a permanent rate limit.

Real Market Value The amount in cash that could reasonably be expected by an informed seller from an informed buyer in a transaction between a willing buyer and a willing seller as of the assessment date (ORS

308.205). For non-specially assessed property, it is the value used to test the constitutional limits.

Reserves Funds established to accumulate money from year to year for a specific purpose, such as purchase of new equipment (ORS 280.100).

SDCs **S**ystem **D**evelopment **C**harges. Also known as impact fees, these statutorily-authorized charges imposed by local government share the capital cost of government-provided systems for sewer, water, stormwater, parks, or transportation with new users of the systems. The fees can include the cost of capital improvements to be constructed and reimbursement for the use of existing capital improvements [ORS 223.297 - 223.314].

Special Service Districts A unit of local government established for the provision of a particular service. In Oregon, special districts provide services ranging from ambulance to irrigation to libraries to roads. The circumstances of their establishment and their service areas differ around the state.

Special Revenue Fund A fund used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specific purposes [OAR 150-294.352(1)].

State-Shared Revenues State funds provided as revenues to local governments under statutory formulas. Formulas exist for the distribution of revenues from: highway users, liquor sales, cigarette tax, and 9-1-1 telephone tax. The use of highway and 9-1-1 revenues by local governments is restricted; there are no restrictions on local government's use of liquor and cigarette revenues.

Urban Renewal A method under Oregon law for cities and counties to finance projects to remove "blight." Examples of blight include poor quality buildings or inadequate streets. The area where the work is to be done is known as a "plan area." An urban renewal agency is activated when the city or county governing body declares the need for renewal in a certain area. After a public hearing the governing body establishes a plan area. The government prepares a plan to improve the area. Unless required by local law (charter provisions), no public vote is necessary.

Revenue to fund the projects in the improvement plan generally come from "division of tax," the process of apportioning property taxes between the urban renewal agency and taxing districts based

on changes in the value of property in the urban renewal area. Some urban renewal agencies formed prior to December 6, 1996 may also collect a “special levy,” a tax on property in the city or county that formed the urban renewal agency. The special levy was designed to protect urban renewal revenues from the reductions created by Measure 50 in 1997.

Unrestricted Funds which are not restricted as to their use by the local government.

Funds Utility Fees Fees for the use of the public right-of-way by a public or private utility company. Fee-paying utilities generally include those providing electric, telephone, cable television, or natural gas service, and that use city roads or other public property for service delivery. See “franchise fee,” above.

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