

Development and City Finances

December 2023

How does the city benefit from development?

In Milwaukie, we actively encourage sustainable, responsible development. When homes and businesses are built in our community, it means more people live, work, and play in our town and contribute to our local economy. Development keeps Milwaukie vibrant, ensures we can handle population growth, and makes our city a more attractive place to be.

More development also means more demand for city services, including infrastructure, public safety, and community programming. These all cost money. So as development occurs, the city has to figure out how to fund these growing demands. We use two primary revenue-generating mechanisms to cover the costs of development:

- **System development charges (SDCs):** We charge these one-time fees when development occurs to pay for infrastructure directly connected to that development, such as needed road improvements, new pipes, traffic signals, etc.
- **Property taxes and utility fees:** Once built, the entities that own the new homes or businesses must pay annual property taxes and utility fees. These on-going payments help us continue to provide critical services that make our city function.

Oregon tax limitations: Measures 5 and 50

Oregon's current property tax system is shaped by two constitutional amendments passed in the 1990s: Measures 5 and 50. These measures significantly changed the way cities could collect local property taxes by forcing cities to use "assessed" rather than real market value when calculating taxes, imposing permanent tax rates, capping annual property tax growth at 3%, and setting arbitrary limits on local taxation.

What does all this mean for cities? It means while we want to encourage development for all the benefits it brings, the costs of providing government services to support that development are rising faster than we are able to cover them.

Development incentives and their impact on city finances

Despite the challenges posed by Measures 5 and 50, development is still vital to keeping cities inclusive, attractive, and livable. In fact, in Milwaukie, we take advantage of several tools to *incentivize* development. These strategies make it more attractive to developers to build in our city by reducing costs on their side. In turn, we forgo some of the tax benefit from that development in the immediate term, in order to reap the longer-term benefits of that investment.

There are several different types of development incentives currently in use in Milwaukie. The column on the right describes a few of these, and the map on the back of this document shows where different developments utilizing these incentives can be found.

The bottom line: We need and want development... and revenue lags behind

Based on current planning projections, we expect Milwaukie to grow by 18% in the next 10 years. While this growth will benefit our tax base and increase city revenues, that revenue will lag behind the increased demand for city services because of the incentives we have in place and the limitations of Measures 5 and 50.

The city needs to plan proactively to accommodate this growth. We continually take strategic steps in our budget and operations to support our staff, ensure we continue to provide high quality services, and invest wisely to provide for Milwaukie's future.

TYPES OF DEVELOPMENT INCENTIVES

Urban Renewal Area (URA)

Urban renewal is a financing tool used to improve the economic viability of areas where buildings need repair, infrastructure is inadequate, or there is population loss. Urban renewal is primarily funded with tax increment financing, meaning tax revenues generated from increases in property values in the URA are earmarked for use on projects *within* that area. That incremental tax revenue cannot be used for city general fund expenses until the term of the URA ends. The map on the back shows the boundaries of the URA in Milwaukie, which was formed in 2016, and is intended to last until 2046.



Henley Place and Seven Acres are examples of development within Milwaukie's URA.

Vertical Housing Tax Credits

Until 2022, Milwaukie had a Vertical Housing Development Zone (VHDZ), in which qualified developments receive a 10-year property tax exemption for 20% per residential floor for the first four floors above ground floor commercial. In a VHDZ, additional partial tax exemptions are available if the developer builds affordable housing. The intent is to help create higher density, mixed-use, and transit-oriented development. Developments approved prior to the VHDZ sunset will still receive the tax exemption once built.



Axletree is an example of a development within the Vertical Housing Development Zone. It is also in Milwaukie's URA.

Low-Income Housing Tax Exemption

The state allows cities to exempt residential properties owned or leased by a nonprofit organization that are limited to households earning no more than 60% of the area median family income from property taxes (if 51% of local taxing authorities also agree). Through the exemption, the nonprofit is able to reduce rents for households, supporting affordability goals. The nonprofit has to reapply for the exemption every year and prove it still meets the qualifications.



This NW Housing Alternatives complex across from Milwaukie High School receives the low-income housing tax exemption.

Other Tax Incentives

The city has the ability to negotiate other tax deferral or exemption agreements with developers in order to make desired development feasible. An example of this is the Cereghino Farms subdivision, which was annexed into the city in 2019. The city and the developer agreed to a 10-year tax deferral agreement on that development.



Cereghino Farms subdivision

Exemptions for Publicly-Owned Developments

Development owned by government agencies are not subject to property taxes. For example, Hillside Park and Manor are owned by the Clackamas Housing Authority. The Hillside Master Plan will increase density on that site from 200 units today to 600 units in the future. We will not see an increase in tax revenue from that growth.



Hillside Park

Approved Milwaukie Development * 2019 -2023

City of Milwaukie

Urban Renewal Area

Does City Collect Full Property Tax? / Development Status

- No – tax incentive provided/ Built
- No – tax incentive provided / Planned/Anticipated
- No – tax incentive provided / Under Construction
- Yes / Built
- Yes / Planned/Anticipated
- Yes / Under Construction

Residential Unit Count

- 0 - 100 Units
- 101 - 300 Units
- 301 - 600 Units

Commercial Square Feet

- 0 - 10,000 sq ft
- 10,001 - 30,000 sq ft
- 30,001 - 50,000 sq ft

Mixed Use

- 0 - 100 Units
- 101 - 300 Units
- 301 - 600 Units

* Only developments larger than a four-plex were included in this map.



Data Sources: City of Milwaukie GIS, Clackamas County GIS, Metro Data Resource Center

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The information depicted on this map is for general reference only. The City of Milwaukie cannot accept any responsibility for errors, omissions or positional accuracy. There are no warranties, expressed or implied, including the warranty of merchantability or fitness for a particular purpose, accompanying this product. However, notification of errors would be appreciated.

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