

CITY OF LAKE OSWEGO

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MEMORANDUM

TO: Jack D. Hoffman, Mayor
Members of the City Council
Alex D. McIntyre, City Manager

FROM: Jordan Wheeler, Management Analyst
City Manager's Office

SUBJECT: 2010 Property Tax and Utility Rates Comparison

DATE: November 18, 2010

INTRODUCTION

This report compares 2010-11 property tax and utility rates for several Portland metropolitan area cities. The purpose is to give City Council an update on how Lake Oswego's taxes and rates compare to other Portland metro municipalities. The report is organized by three sections: Property Taxes, Utility Rates, and Cost of Living, which is a comparison of the annual costs for both public and private utilities and services.

The cities used in the analysis include Beaverton, Gresham, Hillsboro, Milwaukie, Oregon City, Portland, Sherwood, Tigard, Tualatin, West Linn, and Wilsonville.

The results of the comparison are similar to last year, with Lake Oswego's overall and urban services tax rates falling in the middle of the comparison group and less than the aggregate average. The City's combined utility rates also remained as the third highest in the comparison group behind only Portland and Wilsonville.

For more information about property tax assessments and the taxing districts, please refer to last year's Property Tax and Utility Rate Comparisons dated November 25, 2009.

PROPERTY TAXES

Property tax levies have changed little over the prior year and in most cases, the overall tax rates have decreased slightly. This is due in large part to the lowering of bonded debt tax levies, which decrease as bonds are retired, and the fact that there were only a few new tax districts formed in the 2009-10 fiscal year. Clackamas County reported that 2010-11 reflects the lowest assessed value growth and property tax growth in the Measure 50 era.

However, questions may arise about why total property tax bills have increased despite slight decreases in property tax rates and decreases in household market values. The short answer is that in accordance with Measure 50, assessed values increase 3% as long as assessed value is less than market value. In Lake Oswego, this means that property taxes have increased because assessed values in Lake Oswego continue to be less than market values. Generally, the City of Lake Oswego’s assessed value is about 70% of that of real market value.

To review, Measure 50 was passed by the State Legislature in 1997 as a response to the passage of citizens’ initiative Measure 47. Measure 47 and the subsequent Measure 50 reduced property taxes and controlled future growth by reducing district tax levies, switching district levies to permanent rates (before Measure 50 local governments and voters set levies), reducing assessed values, and limiting assessed value growth to 3 percent per year.

City of Lake Oswego Property Taxes

In Lake Oswego, the City’s general (base) property tax levy has remained unchanged for the last six years. The bonded debt rate has also decreased slightly. For 2010-11, the overall tax bill for a resident living in Lake Oswego’s largest tax code is \$17.3830 per \$1,000 assessed value which reflects a decrease of nearly 2% from last year. This results in Lake Oswego’s overall tax rate being lower than 7 of the 11 Cities analyzed in the comparison, including Portland, Milwaukie, Beaverton, Wilsonville, Sherwood, Oregon City, and West Linn.

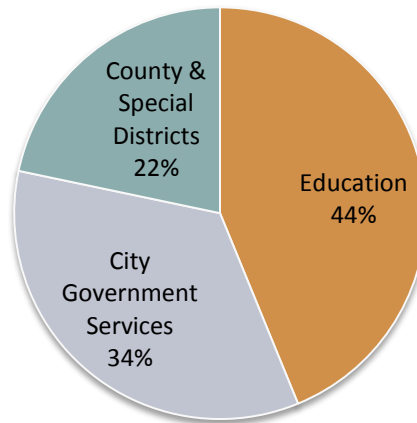
The overall property tax rates in several neighboring cities are shown in the table below:

| <i>Overall Tax Rate Comparison</i> | | |
|------------------------------------|---|------------------------------|
| <i>City</i> | <i>Tax Rate (from largest tax code)</i> | <i>Change from Last Year</i> |
| Gresham | 16.2093 | -.0520 |
| Tualatin | 16.2130 | -.2122 |
| Tigard | 16.4031 | -.2600 |
| Hillsboro | 17.3073 | .0973 |
| Lake Oswego | 17.3830 | -.3353 |
| Oregon City | 18.0691 | -.1193 |
| West Linn | 18.6208 | -.1712 |
| Wilsonville | 18.7725 | .0889 |
| Beaverton | 18.9493 | -.1211 |
| Milwaukie | 18.9681 | -.3730 |
| Sherwood | 19.1021 | -.0966 |
| Portland | 21.7815 | -.0660 |

An average household in Lake Oswego with an assessed value of \$300,000 will pay \$5,215 in property taxes. In comparison, a similar home in Portland would owe \$6,534. Despite a decrease in the overall millage rate in Lake Oswego, property taxes as a whole still increased this year about 1% in the City’s largest tax code due to the 3% increase in assessed values.

Any new assessed value is applied to all taxing districts within the City, which means that adjustments to individual taxing district rates can have little impact on a resident’s overall property tax bill. For example, if the City was to maintain its portion of general property tax collection at the same level as the current year, the base millage rate would need to be reduced by about \$0.15 to account for the 3% increase in assessed value. The reduction would result in an average homeowner (\$300,000 AV) saving \$45 per year (\$3.75/month), however that saving would be lost by the higher assessed values applied to the other taxing districts (school, county, etc.). The loss to the City’s General Fund would be over \$750,000.

Where Does a Lake Oswegian's Tax Money Go?



Importantly, the City of Lake Oswego only receives 34% or \$1,798 of an average property owner’s total property tax bill. The City’s base tax rate is 4.9703 per \$1,000 of assessed value, which provides funding for a number of important government services. These services include Fire, Police, Parks & Recreation, General Government & Administration, Planning and Community Development, Library, Economic Development, and Facilities Management. Excluding redevelopment and bonded debt, if you were to divide a dollar of property taxes to City services, the dollar would be split accordingly:



Urban Services

As a full-service city, Lake Oswego directly provides services that many other municipalities rely upon special districts for service delivery. To provide an accurate comparison of the cost to provide urban services, fire districts, park districts, public safety levies, and library districts were combined to form an “urban services” tax rate.

| City | City Permanent Rate | Fire District | County Sheriff Loc Option | Park District | Library District | City Bonded Debt Rate | City Urban Renewal | Overall Urban Services |
|-------------|---------------------|---------------|---------------------------|---------------|------------------|-----------------------|--------------------|------------------------|
| Gresham | 3.5158 | | | | | | 0.7954 | 4.3112 |
| Tualatin | 2.2665 | 1.8828 | | 0.0900 | | 0.2652 | 0.0000 | 4.5045 |
| Tigard | 2.5000 | 1.8748 | | 0.0895 | | 0.2087 | 0.0729 | 4.7459 |
| West Linn | 2.1200 | 1.8828 | 0.2480 | | 0.3903 | 0.3322 | | 4.9733 |
| Hillsboro | 5.3865 | | | | | | | 5.3865 |
| Lake Oswego | 4.7924 | | 0.2391 | 0.0420 | 0.3761 | 0.5883 | 0.6138 | 6.6517 |
| Wilsonville | 2.0598 | 1.6040 | 0.2480 | | 0.3097 | 0.1399 | 2.9629 | 7.3243 |
| Sherwood | 2.9258 | 1.6707 | | | | 0.6231 | 2.1526 | 7.3722 |
| Milwaukie | 4.0681 | 2.3609 | 0.2480 | 0.5047 | 0.3903 | 0.0000 | | 7.5720 |
| Oregon City | 3.9607 | 2.2433 | 0.2480 | | 0.3714 | 0.1169 | 0.8348 | 7.7751 |
| Beaverton | 3.9678 | 1.8828 | | 1.7428 | | 0.2356 | | 7.8290 |
| Portland | 6.8776 | | | | | 0.1751 | 2.4227 | 9.4754 |

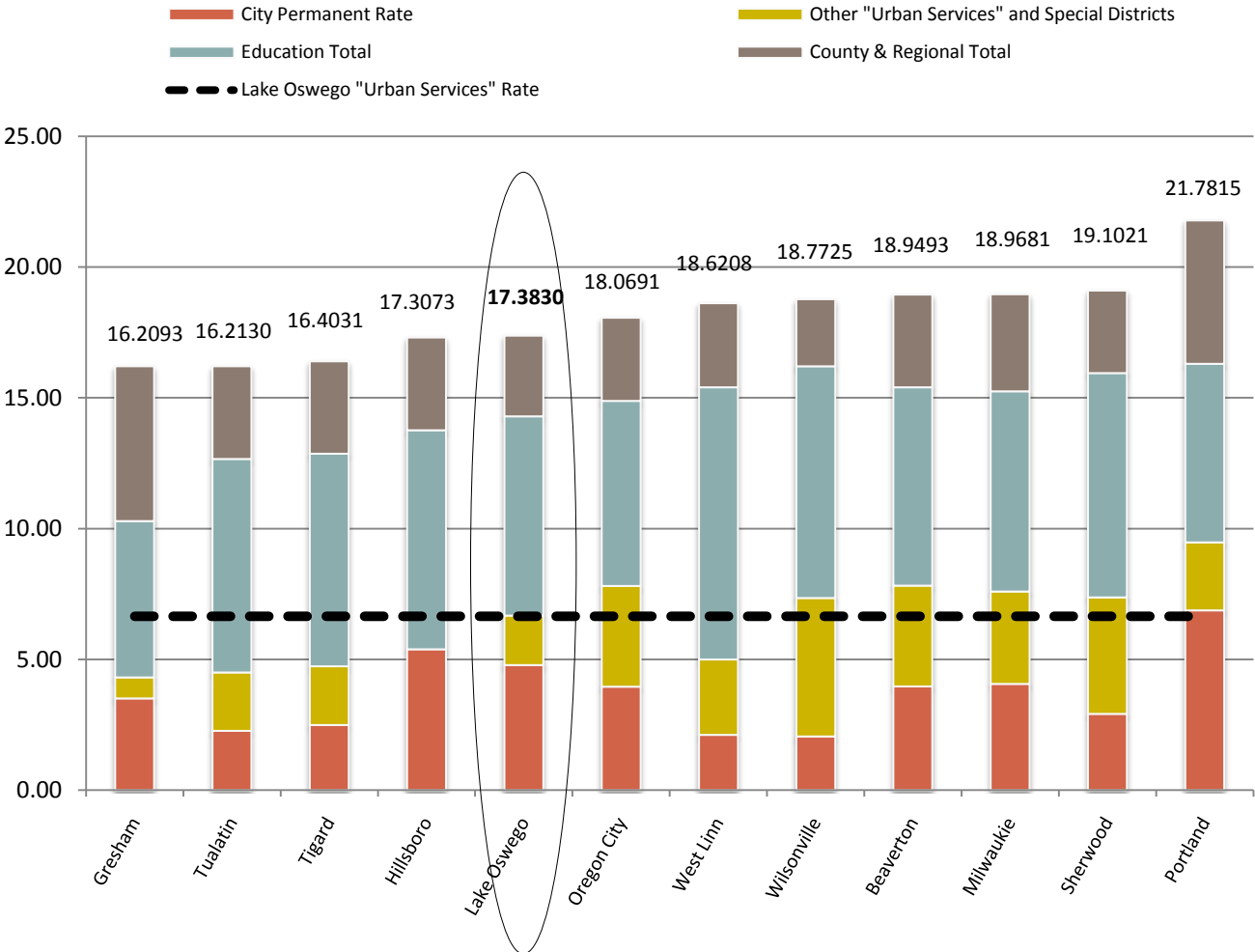
Taking into account special districts, the City of Lake Oswego’s urban services tax rate is again in the middle of the pack for the comparison group. A typical household in Lake Oswego pays \$2,000 for these services which include award winning City parks and open spaces, high quality recreation programs, exceptional public safety services, a walkable and livable downtown, top-tier public library, well-planned and supported neighborhoods, and modeled administration and financial management services.

In review, the services districts are defined as the following:

- Fire District: Includes Tualatin Valley Fire and Rescue or Clackamas County Fire. Also includes the bonded debt levies for those districts.
- County Sheriff Local Option: A local option levy for Clackamas County sheriff operations passed by voters in 2006 for jails and deputies.
- Park District: Includes the Lake Grove Swim Park District, Tualatin Hills, North Clackamas Park District, and the newly established Tigard-Tualatin Aquatics District.
- Library District: Voter approved Clackamas County Library District.
- City Bonded Debt Rate: These are levies for funds to make payments on outstanding capital construction bonds.
- City Urban Renewal: Urban renewal rates derived through division of taxes or special levies.

The following graph shows how Lake Oswego’s tax district categories (including the assembled “urban services” rate) compare to other municipalities.

2010 Property Tax Comparison



Measure 5 Categories Comparison

Measure 5 divided property tax levies into three categories and established limits for each category. Those categories are Education and General Government. Tax assessments for bonded debt are excluded from limitations.

| <i>Measure 5 Tax Rate Comparison</i> | | | | |
|--------------------------------------|------------------|-------------------|-----------------|-------------------|
| <i>City</i> | <i>Education</i> | <i>Government</i> | <i>No Limit</i> | <i>Total Rate</i> |
| Gresham | 4.9568 | 9.6876 | 1.5649 | 16.2093 |
| Tualatin | 6.4258 | 7.1368 | 2.6504 | 16.2130 |
| Tigard | 6.3925 | 7.4221 | 2.5885 | 16.4031 |
| Hillsboro | 5.4115 | 8.3916 | 3.5042 | 17.3073 |
| Lake Oswego | 6.2729 | 8.7978 | 2.3123 | 17.3830 |
| Oregon City | 5.5889 | 10.4249 | 2.0553 | 18.0691 |
| West Linn | 7.2752 | 7.3810 | 3.9646 | 18.6208 |
| Wilsonville | 5.9406 | 9.3845 | 3.4474 | 18.7725 |
| Beaverton | 5.1296 | 10.0554 | 3.7643 | 18.9493 |
| Milwaukie | 5.4718 | 10.8637 | 2.6326 | 18.9681 |
| Sherwood | 4.6573 | 9.3201 | 5.1247 | 19.1021 |
| Portland | 6.5124 | 14.2754 | .9937 | 21.7815 |

The Education category includes School Districts, Education Service Districts, and Community Colleges. Government includes Cities, Counties, Fire Districts, Water Districts, Metro, Ports, urban renewal, and other special service districts.

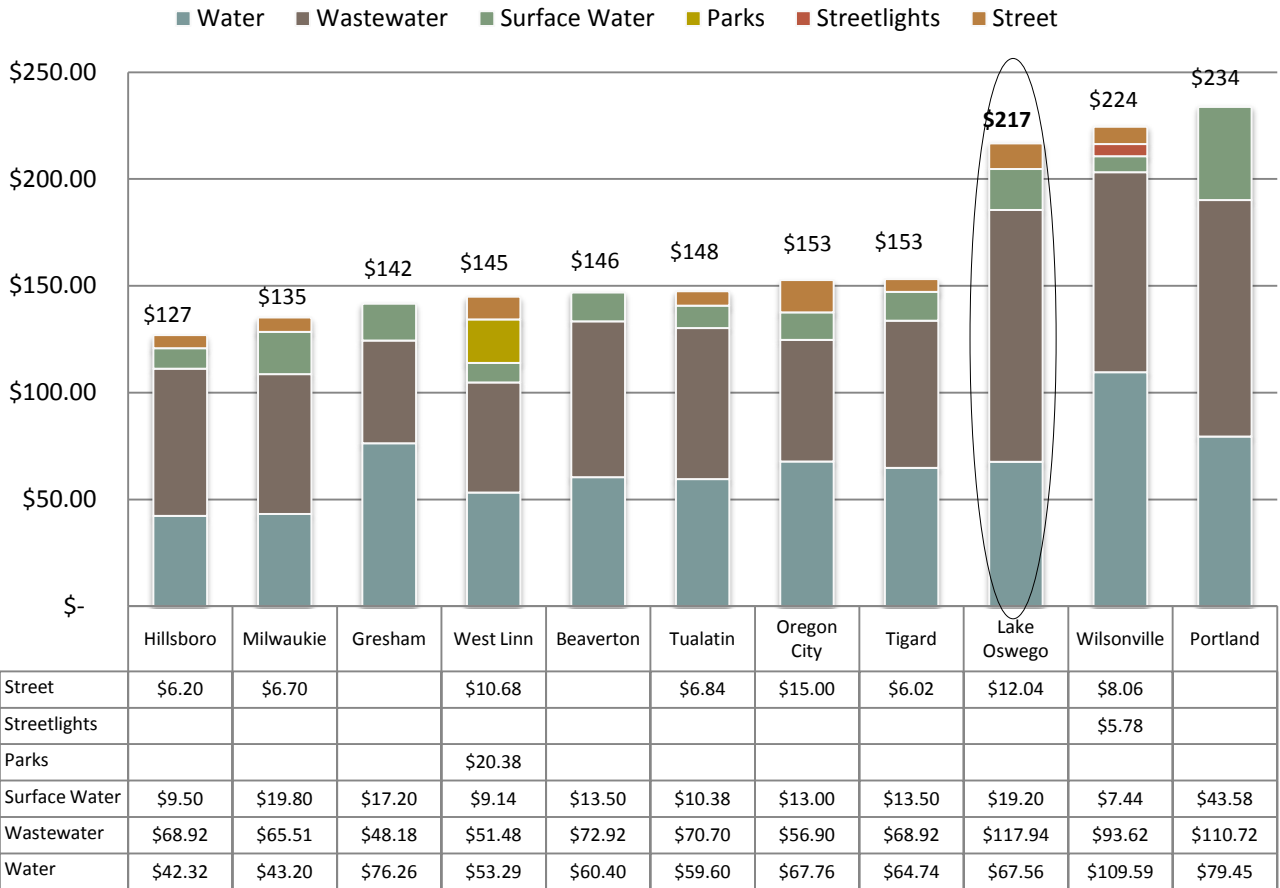
UTILITY RATE COMPARISON

The City of Lake Oswego is a full-service city that provides water, sewer, surface water, and street utility services to its residents and customers. Lake Oswego's bi-monthly utility rates for residential customers are higher than several of the City's in the comparison group due to rate increases for the LOIS and LO-Tigard Water Partnership projects. Because Lake Oswego is a AAA bond rated city, rate payers in Lake Oswego are saved additional rate increases due to the low interest rates for our full faith and credit bonds.

As public infrastructure systems continue to age and the demands on those systems increase, the needs and demands to replace and upgrade utility assets grows. Lake Oswego is not the only city faced with these challenges. For example, Wilsonville is undertaking a \$50 million upgrade to its Wastewater Treatment Plant and Tigard is also increasing rates 14% per year from 2012 through 2014 for its part in the Water Partnership Project. Clean Water Services and Tualatin Valley Water District are also planning for projects such as the Tualatin Basin Water Supply project which will impact several communities in Washington County. Other cities such as West Linn are also faced with tough decisions about utility rates increases to pay for growing backlogs of capital projects.

The rate comparison is shown on the following page. The comparison is based on rates effective July 1, 2010 and represents data for the average bi-monthly usage for water (2,000cf), and sewer (1,600cf). Lake Oswego's rates have been updated to show the proposed Master Fees and Charges for 2011.

Bi-Monthly Utility Bills Comparison



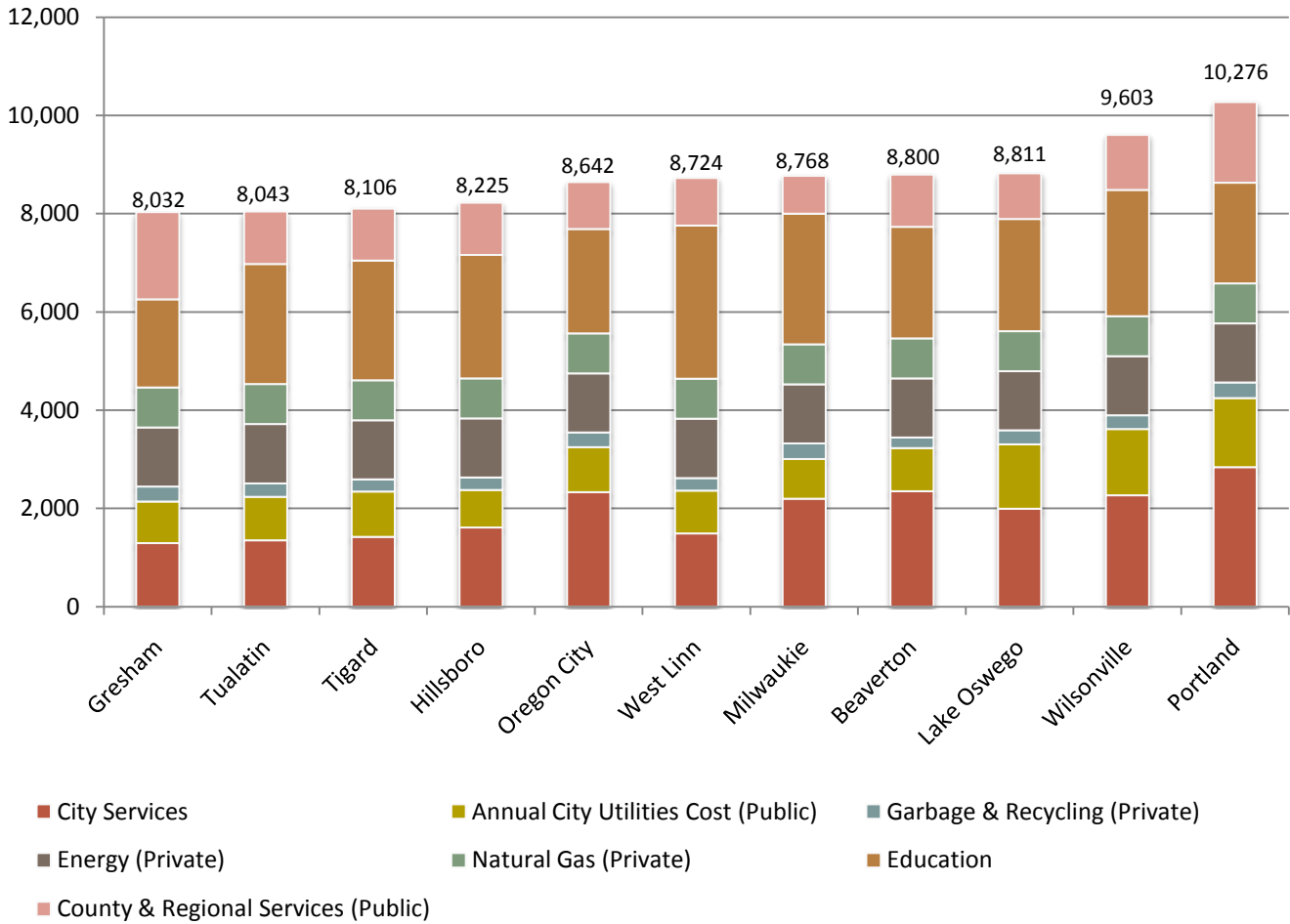
COST OF LIVING

Homeowners also pay for other costs associated with their property such as private utilities, garbage and recycling services, and education. When accounting for those costs, a Lake Oswego household with an assessed value of \$300,000 will have a total annual cost of approximately \$8,811 for public and private utilities and services.

The following services and fees were included in this comparison:

- City Urban Services (Public): City taxes for services (includes urban renewal and bonded debt).
- City Utilities Costs (Public): Costs for water, wastewater, street, and storm water public utilities provided by cities or special districts.
- Garbage & Recycling (Private): Fees for garbage and recycling services provided by private companies either through a franchise or free market system.
- Energy (Private): Portland General Electric (PGE) charge for average annual use for a household in Portland metro area.
- Natural Gas (Private): Northwest Natural charge for average monthly therm use.
- Education (Public): School District, Community College, and Education Service District taxes.
- County & Regional Services (Public): County, Metro, Soil & Conservation, Port of Portland.

The costs for consumer goods and services, mortgages, food, or discretionary household expenses are not included. The graph below shows the annual costs for these public and private services and utilities.



SUMMARY

This year’s property tax and utility rate comparison shows that little has changed in the last fiscal year. The overall property tax rate is less than nearly half of the cities researched in this comparison and the tax rate levied for public safety, parks, recreation, and government services in Lake Oswego is also less than several surrounding cities. The high quality of life in Lake Oswego that is valued and expected by its citizens was cultivated over the years through smart planning and strong community investments in schools, parks, public safety, and government programs. However, a higher quality of life also results in assessed and market values that are higher than other surrounding cities. In any case, the lower urban services rate shows that Lake Oswegians actually pay less per \$1,000 assessed value than many other cities for the quality programs and services that the City provides.

Lake Oswego’s utility rates are again higher than many other surrounding cities at this time due to the community’s investment in large infrastructure projects to replace aging wastewater and water systems. It is likely that neighboring cities that have not begun efforts to address the growing backlog of infrastructure needs will also be faced with difficult decisions in the years to come.