



DATE: February 3, 2021
TO: Oak Lodge Governance Project Stakeholder Committee
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FROM: Nick Popenuk
SUBJECT: OAK LODGE FISCAL ANALYSIS – OVERVIEW OF METHODOLOGY AND
OUTSTANDING QUESTIONS

Background

Metro contracted ECONorthwest (with Tiberius Solutions) to develop a governance model alternatives analysis for Oak Lodge, an unincorporated community in Clackamas County between the cities of Milwaukie and Gladstone, the Willamette River, and the Oatfield Ridge. The purpose of the project is to study the economic and governmental potential to incorporate this large, suburban area into a new and/or existing city. The analysis will consider three scenarios for future governance:

- Oak Lodge remains an unincorporated community of Clackamas County (no action)
- Oak Lodge annexes into Milwaukie
- Oak Lodge incorporates as a new city

A key component of the evaluation is understanding the fiscal impacts of the different governance scenarios. This memorandum presents an overview of the methodology for the fiscal analysis and recommendations from the consultant team on key methodological questions. We would like to receive input on from the Oak Lodge Governance Project (OLGP) Stakeholder Committee on these recommendations.

Key research parameters

Two fundamental parameters for the fiscal analysis are:

- What research questions will the analysis answer?
- What time period will be covered in the analysis?

Below, we state the consultant team recommendation on these key research parameters, and ask the OLGP Stakeholder Committee for input.

Research Questions

The field of fiscal impact analysis can encompass a wide range of research questions. With constrained resources (time and budget), the more questions that this analysis seeks to answer, the less detail can be provided on answering each question. The consultant team recommends that the analysis focus on answering three core questions for each service in each scenario:

- How much does the service provider spend to serve the area?
- How much does the area pay for the service?
- How much does a hypothetical household pay for the service?

Time Period for Analysis

There are a range of time frames that can be evaluated in the fiscal impact analysis. They include:

- **Current fiscal year:** Understanding the fiscal situation of the area today is a challenge on its own. This is a custom geography overlapping multiple service providers. Knowing how much the County spends on transportation in this area is not as simple as looking up a number in the adopted budget. Instead, we need to identify the total costs that each provider spends on each service, and determine an appropriate method for isolating the portion of those costs that are spent in the study area boundary. An evaluation focused on the current fiscal year benefits from easy access to thorough data on all categories of costs and revenues for all service providers.
- **Short-Term Future:** Looking beyond today's budget, we can identify the projected costs for service in the short-term future. Specifically, we're looking at the period of time covered in existing capital improvement plan (CIP) documents (typically five-years). An evaluation focused on the short-term future begins to run into challenges for obtaining thorough data on all categories of costs and revenues for all service providers. For example, some jurisdictions may not have up-to-date CIP documents that cover the same 5-year period.
- **Long-Term Future:** Looking long into the future (20-30 years or more) can be the most interesting horizon for fiscal analysis. Major public decisions on governance should be informed by the fiscal consequences of not only today, but for many years to come. This long planning horizon, however, brings with it many challenges and limitations. Many services may have a poor estimate of the capital costs that will be needed over such a long timeline. Actual costs for service long-term will be impacted by a host of factors that we cannot anticipate, and/or that need to be held constant for the purposes of this analysis (changes in technology, taxation, public policy, demographics, land use, etc.). The interest in analyzing long-term fiscal impacts needs to be weighed against the cost of conducting this more challenging analysis and cognizant of the limitations of such an analysis.

The consultant team recommends that the analysis focus on the current fiscal year and (to the extent data is available) the short-term future. This recommendation is based on providing the OLG with a thorough and accurate dataset for the current fiscal year that can serve as a foundation for additional future research. Additionally, this recommendation allows for a more accurate and cost-effective analysis that takes advantage of available data and does not require elaborate assumptions about future changes in service provision.

Overview of methodology

Regardless of decisions on the key research parameters described above (i.e., specific research questions and the time period for the analysis), we anticipate the next steps in the analysis would include:

- Identify relevant costs/revenues
- Determine the granularity of the analysis
- Isolate the share of costs/revenues in the study area boundary
- Translate costs/revenues from one service provider to another

Step 1. Identify all relevant costs/revenues

The first step in the analysis is identifying all relevant costs and revenues associated with each relevant service. This may not be as simple as isolating a single departmental fund. Expenditures may be spread across multiple funds, and revenue sources may include "interfund transfers," requiring further analysis to unpack the original source of funds. We may need to seek clarification from service providers that we have

correctly captured all costs/revenues relevant to each service (and conversely, that we have not erroneously included any costs/revenues that should be excluded).

Broad categories of expenditures include:

- Operations and maintenance
- Capital
- Debt Service

Given the consultant team recommendations on the time frame for the analysis (current and short-term future), we recommend including all of these broad categories of expenditures in the analysis. If the analysis were focused on a longer time frame, then current debt service costs may not be applicable and future capital costs may be difficult to estimate without more meaningful collaboration by staff for affected service providers.

Step 2. Determine the granularity of the analysis

The methodology must stipulate the distinct categories of costs/revenues for each service that are analyzed. For each service, we can analyze costs and revenues at the aggregate level (i.e., cost of Sheriff's Department), or we can analyze disaggregated costs at a more granular level (i.e., Administration, Operational Support, Training & Wellness, Patrol, Detectives, Civil, Jail, Marine, etc.)? More aggregate analysis is less costly, but may also be less accurate. More granular analysis is more costly, but may be more accurate. Determining the level of granularity will have important implications for the allocation of project budget.

When considering disaggregated categories of expenditures, there are two approaches that could be used: the "object" of expenditures or the "purpose" of expenditures?

Objects of expenditures are broad accounting categories that will be the same for all services. These include:

- Personnel
- Materials & Services
- Capital
- Debt Service

Purposes of expenditures provide more detail on what the funds are used for and will vary between services. As an example, for the Clackamas County Sheriff, these include:

- Administration
- Operational Support
- Training & Wellness
- Patrol
- And many others

The consultant team is not yet ready to make a recommendation about how granular the analysis should be. We are currently evaluating this topic and will come back with a recommendation to the OLGP Stakeholder Committee in the near future. It may be that we conduct the analysis of different service providers at different levels.

Step 3. Isolate the share of costs/revenues in the study area boundary

Each of the line items in Step 2 will require assumptions for forecasting costs and revenues. Once we have a complete list of the costs/revenues to be included in our analysis, and the total amount of those costs/revenues jurisdiction-wide, we need to estimate the share of those costs/revenues attributable to the study area boundary. Some of these costs/revenues may be possible to accurately calculate (for example, the amount property taxes paid, or the cost of specific transportation capital improvements).

Other costs/revenues will need to be estimated. The method for doing so will vary for each service (and may even vary for different subcategories within each service, if a more granular analysis is conducted). Examples of the potential bases that may be used in the analysis include:

- Population
- Acreage
- Miles of pipe
- Miles of roads
- Number of calls for service
- And many others

The consultant team is not yet ready to make a recommendation on the specific bases to be used for isolating the share of costs/revenues in the study area boundary. We are currently evaluating this topic and will come back with a recommendation to the OLG Stakeholder Committee in the near future.

Step 4. Translate costs/revenues from one service provider to another

The last step in the analysis is translating the costs/revenues from the current service provider to the costs/revenues for other potential service providers. This only applies to those services where the scenarios assume different providers (police, transportation, community development, and general administration). Ideally, we would take the same basis used to isolate the share of costs in Step 3, and apply it to the relevant budget categories for the “new” service providers. However, the categories of revenues and expenditures for the same service are likely to be different for different service providers. Thus, the methods of analysis may also need to change, to reflect the different budget organization.

The consultant team is not yet ready to make a recommendation on the detailed methods to be used for translating the costs/revenues from one service provider to another. We are currently evaluating this topic and will come back with a recommendation to the OLG Stakeholder Committee in the near future.