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|  | Memorandum | |
| To: | Mike Simmons |
| From: | Jesse Winterowd, AICP, PMP |
| Date: | June 14, 2021 |
| Re: | **Molalla Urban Growth Process Implications** |
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# Introduction

This memorandum provides land use history and context for the City of Molalla and estimates likely process pitfalls and results of possible long-range urban planning approaches.

## Molalla Urban Growth History

The City of Molalla’s Comprehensive Plan (Plan) and Urban Growth Boundary (UGB) were established in 1980. At the time, the city’s population was 3,180 and the UGB was intended to provide a 20-year land supply that would accommodate:

1. Housing needs of a population growing to 7,645;
2. Employment needs anticipating growth in jobs for the increased population and surrounding areas;
3. Public and semi-public needs for parks, schools, lodges, churches and similar uses that make up the fabric of urban life.

Plans are intended to be reviewed and updated every 5 to 7 years to retain relevance, and UGBs are intended to correspondingly be updated to retain a rolling 20-year land supply to meet current and future housing, public and employment needs.

Molalla engaged in a Comprehensive Plan update process in 2007-2011, leading to Plan updates, efficiency measures increasing density, development code updates, and a city approval of a 50-year urban reserve area (URA). However, due to a population coordination disagreement with Clackamas County, that process ended without an acknowledged URA. Clackamas County updated Molalla’s Plan in 2014, noting “based on preliminary buildable lands inventory figures, it is likely Molalla’s UGB has a deficit of both residential and employment lands”.

Therefore, from 1980 to now, despite the population more than tripling, the Molalla UGB has not changed. According to Portland State University, there are currently over 10,000 residents within the UGB. As one would expect given this situation, Molalla now:

* Has well under a 20-year supply of residential land;
* Lacks enough park land to meet park needs for the current population;
* Lacks school land to meet school needs for Molalla residents; and
* Lacks employment land sufficient to provide opportunity for anticipated future employment needs.

# Urban Growth Land Need Estimates

Winterbrook has performed multiple land need and supply analyses for Molalla within the past 15 years. The last analysis was performed using 2018 land supply and population forecasts. Since then, Molalla has continued to develop what is left of its land supply. There is always a degree of discretion and judgment in supply and demand analysis, and a variety of different safe harbor approaches are legally available. We anticipate a new or updated analysis will show:

* Between 200-270 acres needed for housing to serve the PSU forecast population of 15,141 through 2040; and
* Between 70-110 acres of residential land supply within the existing UGB.

This will result in an unmet need of between 90-200 acres of residential land for housing. If public and semi-public land need (parks, schools, etc) is accounted for, this will add between 30-100 acres of need for residential land.

Therefore, a purely residential land need analysis is likely to show up to 300 acres of residential land needed to add to the UGB over the next 20 years.

## Expansion Priorities and Exception Lands

Molalla (and other Oregon cities), must apply a statutory priority to inclusion of lands for urban growth:

1. Urban Reserve. Currently Molalla has no URA, so would not be able to expand into this category.
2. Exception Land. This is land outside of the UGB not zoned for farm or forest. Molalla has two large exception areas adjacent to or near the UGB. To the south, a 556-acre exception area generally zoned for rural residential. To the west, an approximately 100-acre airfield exception area with associated rural residential parcels.
3. Lower Quality Soils (Soil Class III-VI). Class III and IV soils are generally wetland and floodplain areas.
4. Higher Quality Soils (Soil Class II). Most of the farmland around Molalla is Class II soils.

As noted above, the highest applicable priority land is a 556-acre area of rural residential land adjacent to the south of Molalla. We estimate this southern exception area alone would provide 280-360 buildable acres of residential land supply.

Therefore, we estimate a 20-year analysis of housing needs, or overall residential land needs, will lead to an expansion of Molalla’s UGB into, and very likely only into, the southern rural residential exception area.

There are a few problems with expansion into this area:

1. Inefficient parcelization and existing development pattern. The southern exception area contains over 130 tax lots, existing roads, septic systems, and buildings. This makes land acquisition and development generally more expensive than on larger, undeveloped parcels.
2. More expensive to serve with public facilities. Because of the parcelization pattern and existing private facilities, as well as topography, this area is more expensive to serve with public facilities than areas adjacent to the UGB in other directions.
3. Adjacent to industrial and planned industrial areas. The southern portion of Molalla contains most of Molalla’s existing and planned industrial employment land. Planning for urban residential neighborhoods in this area may increase environmental health hazards and potential future conflicts, and would not typically be considered “good” urban design.
4. Residents do not want to be annexed. During previous public hearings related to urban growth, many residents in the southern exception area came to testify they did not want to be in Molalla, and do not want to be annexed.
5. Land supply. In order to expand its UGB, a city must show its current UGB lacks sufficient land supply to meet future needs. Once the exception area is inside Molalla’s UGB it will count as available land supply in planning analyses, even if it never gets annexed or meets any of the city’s needs. If Molalla is interested in planning for the needs of its current and future residents, holding a large supply of land that is costly and inefficient to develop will limit opportunities for future planning efforts.

## Urban Reserve Approach

All of the problems with exception area growth were considered extensively by the planning commission and city council in the 2007-2011 process. Expanding the UGB exclusively into an area that would not accommodate growth effectively was not considered to be good planning or a worthwhile end result.

This led to the 2007-2011 approach of planning for a bigger picture and establishing an urban reserve area (URA) prior to expanding the UGB. Having an established URA would allow future UGB expansions in areas that could effectively meet urban needs and be efficiently served by public facilities. As noted earlier, this effort failed due to lack of common ground on a coordinated population forecast with Clackamas County. However, in 2014 Clackamas County adopted a coordinated forecast, and since that time, the population forecast is no longer a point of contention.

Winterbrook and Johnson Economics, through private funding from 2015-2019, developed updated studies and analysis supporting the establishment of a URA to allow for efficient and effective urban growth. The products were prepared with the same methodology as used for government-funded products and provided to Molalla for public use. These studies were based on 2017 coordinated population forecasts, for 20- and 50-year timeframes.

As shown in Table 1 below, the 20-year (UGB) analysis identified an unmet need for 327 acres of residential and employment land, and the 50-year (URA) analysis identified an unmet need for 1,275 acres of residential and employment land. Expanding only the UGB would very likely bring in only exceptions area land. That would mean nearly all of Molalla’s future housing, parks, schools, commercial, and industrial land would be planned in the rural residential areas to the south of the city.

Establishing a URA would allow Molalla to include all exceptions areas adjacent to the UGB, as well as additional land consistent with growth priorities (lower quality farmland, then higher quality farmland). As Molalla expanded its UGB, it could identify which lands within the URA would be most efficient to serve with public facilities and best meet identified residential (including parks and schools) and employment needs.

**Table 1: Demand and Supply Comparison (2037, 2067)**

This URA approach was supported by Molalla, DLCD and Clackamas County in multiple meetings from 2015 through 2019. However, Molalla did not initiate a process to use the Buildable Lands Inventory, Housing Needs Analysis, and Economic Opportunities Analysis products to establish a URA and subsequently expand the UGB at that time.

# Population Forecast

Portland State University updates population forecasts for all Oregon cities and counties every four years. These forecasts provide the fundamental basis for urban growth planning – cities must plan to accommodate 20 years of forecast population growth within their UGBs.

However, past and ongoing population growth is a major driving factor of the population forecast. If Molalla does not have enough available residential land to meet demand and its population growth slows down, future forecasts will correspondingly reduce their assumptions for growth. Put simply, if a community is growing, it will receive a higher assumption for future population growth than if it isn’t growing.

This dynamic is a significant concern in relation to inclusion of exceptions area land within the UGB – if land within the UGB does not develop to meet residential or employment needs, Molalla’s population will not grow consistent with the forecast, population growth forecasts will decline, and Molalla will show a lower need for land. The lower need will continue to be “met” on paper by existing land supply (i.e., the exceptions area land that does not annex or develop) and Molalla will not be able to provide land that will realistically address housing or employment land demand. This cycle will continue to decrease population forecasts every four years.

# Planning Process Options

Molalla will soon officially have over 10,000 population and will therefore be required by the state to evaluate 20-year land needs and update its Plan to accommodate those needs. As noted above, it is extremely likely that Molalla will need to expand its UGB to provide enough land for an additional 20 years of population growth.

## DLCD Grants

Some grant funding is available from DLCD to apply toward long-range planning work. Funding is limited and demand is high for these grants. A typical grant condition is that the recipient adopt the product of the grant. As explained below, in all likely grant cases the direct result will be that Molalla will be required to include the southern exception area in a UGB expansion.

**Housing Needs Analysis & Strategies Grant**

This would evaluate housing need over the next 20 years for Molalla, and some potential strategies to meet that need. In order for Molalla to adopt an HNA grant product, the city will also be required to meet the needs identified in the HNA. This will very likely require adopting efficiency measures and expanding the UGB. The grant is unlikely to be funded to include the extent of legislative changes required, so the city would either cover the cost of additional analysis, process, and work products, or enter into a sequential adoption process and apply for additional grant funds at the next grant cycle.

The resulting UGB expansion after all of this work will very likely be limited to 100-200 acres of expansion into the rural residential exception area to the south of the city.

**Urbanization Report Grant**

An urbanization report goes beyond just housing needs and addresses public and employment land needs. The advantage of this would be a more comprehensive look at future land needs for Molalla, and ability to plan more effectively.

Employment needs evaluations vary widely. Public and semi-public needs evaluations vary widely. Accommodating all urban needs would require bringing the entire southern exception area into the UGB, along with possibly the airport exception area, and likely require 50-200 acres expansion onto farmland beyond these areas.

Including additional analysis increases funding requirements. An employment opportunities analysis (EOA) is typically similar in cost to an HNA. Given the shortage of funds available, this approach is less likely to be fully funded. The UGB expansion required by this approach is very likely to require an additional grant cycle.

## Urban Reserve Approach

Establishing an urban reserve area (URA) prior to UGB expansion is the only approach that will not immediately place all or most of Molalla’s future growth within the southern exception area. Despite previous discussions and agreements to use this approach, DLCD is unlikely to fund an urban reserve evaluation prior to UGB expansion for Molalla this grant cycle.