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"Harmony in
Diversity"

PORTLAND CITY CLUB BULLETIN

"Active
Citizenship"

VOLUME VI

PORTLAND, OREGON, JUNE 25, 1926

NUMBER 38

FRIDAY, JUNE 25

Hotel Benson, 12:10

A DOUBLE PROGRAM

SPEAKER

CHARLES P. CRAIG

*Executive Director
Great Lakes-St. Lawrence Tidewater Association
Washington, D. C.*

SUBJECT

"Developing The Nation Through Transportation"

The effect of the St. Lawrence ship canal upon the growth of trade in the Pacific Northwest will be discussed by Mr. Craig. The Association, which consists of twenty-one states banded together by official action of each of the states, is unique and apart from any other form or function of government in America.

SPEAKER

CHARLES E. HERRING

Commercial Attache, Berlin

SUBJECT

"Pacific Northwest Trade as Affected by European Conditions"

Mr. Herring was appointed Commercial Attache to Berlin upon the re-establishment of relations with Germany following the World War. He has been intimately associated with business conditions in Europe and can speak authoritatively upon them.

REPORT

THE CITY'S TAX LIMIT AMENDMENT

CITY TAX LIMIT AMENDMENT ANALYZED

An analysis of the city's tax limit amendment which is to be voted upon at a special election July 1st, is the subject of a report by a committee of the Government Organization and Public Finance section which is presented in this issue of the *Bulletin*. Members of the committee are: Robert G. Dieck, chairman, John A. Lee and Francis H. Murphy. The report has been approved by the Board of Governors for submission to the Club and will be presented at the regular luncheon meeting on June 25th.

The report follows:
To the Board of Governors:

The special committee of the Club appointed to study the amendment to the city charter, submitted by the Council for adoption by the electorate in the special election on July 1st, makes its report.

General Observations

The measure in brief is an attempt to stabilize the city's finances by—

(Continued on Page 2)

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TAX LIMIT AMENDMENT

(Continued from Page 1)

(a)—removal of the existing tax limitation of 8 mills (for general purposes) and authorization of a levy for these and certain special purposes (special bridges, playgrounds and police and fire pensions now separately provided for), in what might be called a consolidated levy for general purposes, separate and distinct from the levy for interest and principal of bonds and from the special authorization for increased pay to policemen and firemen (voted on at the recent special election), the amounts for the special purposes being limited as now but to appear in subsequent budgets merely as expenditure items in general fund account;

(b)—application of the constitutional provision allowing a 6% annual increase on the base levy of the previous year for the year under consideration without further specific authority of the electorate for such increase;

(c)—authorizing certain maximum special levies for the years 1927 to 1936, inclusive, graded downward from 3.0 mills for 1927 to 0.2 mill for 1936, in somewhat irregular fashion, without necessity of an annual authorization of special levies, it being the plan to avoid further voting of special levies hereafter and to conduct the affairs of the City after 1936 with the funds from the base levy, increased, if needed, by the 6% annual increase authorized by the constitution.

As above stated, the submitted measure is entirely separate from the amendment for increased pay to policemen and firemen approved

at the last election, at which a measure in precisely similar terms was defeated by a small adverse majority.

In the event of failure of the measure to carry, and no other means be found to overcome the deficit in the budget—assuming the organization of the City's departments to be as now—there must be a reduction in expenditures during 1927 of some 15-20% on the basis of the 1926 levy for general purposes (upon the assumption of an assessment as for 1926), or, in money, about \$600,000. In the situation immediate and drastic reductions are inevitable to balance the budget for 1927. To accomplish this, assuming failure of the measure to pass, plans must at once be made for readjustments in all departments. Under the existing statute the proposed budget of the City for 1927 must be submitted for review and certification of the Tax Supervising and Conservation Commission of Multnomah County, in October next, in order that there may be a lawful levy.

If the Council should submit the budget calling for a levy for general purposes beyond the 8.0 mills limitation as now fixed in the charter, the Tax Commission would have no other course open than rejection and return of the budget to the Council, for redraft to come within charter requirements. It might of course be possible to call another election for another vote on the measure (either a special election before the date of submission to the Tax Commission or to postpone this till the November general election, when approval might be secured) but with the City's fiscal year 1927, commencing December 1st, next, it is obvious that the uncertainties would be productive of general confusion in the municipal organization and would, additionally, disturb the conduct of all municipal affairs from this time to the end of the present fiscal year.

Major Reasons For the Present Financial Difficulty

The commission charter of 1913 was drawn with a provision limiting the levy for strictly general purposes to 8.0 mills, this limitation having been inserted in a belief that the assessment of property for tax purposes would increase about as had been the experience in the years immediately preceding and that such increase would provide for a normal growth of the City without the voting of special taxes or a change in limit helped out, of course, by revenues from miscellaneous sources which might be expected to become greater with the City's growth. This expectation has not been met, for in spite

of incorporation of several large areas and a considerable development in the way of buildings and other improvements, the assessment in each of the years from 1913 to 1924, inclusive, except for a single year (1920), actually was below that for 1913. In 1925 the assessment was about \$325,000,000 whereas if there had been the increase anticipated it would have equalled \$400,000,000, conservatively. In 1916 the Oregon prohibition amendment brought loss of about \$375,000 per annum theretofore derived from liquor licenses, and the aggregate of loss in this item alone during the past 10½ years has been about \$4,000,000. In 1918 the Council submitted an amendment to the improvement code (which the electorate promptly passed) relieving improvement districts of the 5% supercharge for engineering and inspection services, performed by the City on improvements carried out in conformity with the Bancroft bonding act. In 1924 a supercharge (now 6%) was again imposed by vote of the people but in the interim about \$10,000,000 of improvements had been carried out, with a direct and positive loss of revenue aggregating \$532,288. It should be understood that in the six years mentioned the General Fund had met all technical expenses. In 1921 a statute relieved automobiles from the personal property tax, enhanced license fees being exacted to take care of the loss in taxes, but none of the returns from the fees have accrued to the City treasury, all passing to state and county. It has been practically impossible to calculate the loss from the legislation but Mr. Grutze (Chief Deputy City Auditor) has estimated that during the six years just passed it has approached \$600,000. Statutory changes in the method of tax collection—allowing as now payment semi-annually instead of annually, as prior to 1914, and pushing further along in the year the time of payment of the first semi-annual installment—having reduced the amounts available for payment of warrants during the first months of the fiscal year and hence the revenue from interest on daily balances in addition to requiring borrowing in anticipation of taxes. It is pure speculation to state what the loss in revenue and interest charges has been but a very conservative estimate for the past twelve years would be \$300,000 to \$400,000. Taking these four items then, the estimated loss in miscellaneous revenues during the past eleven years, never anticipated by the drafters of the charter, has been in the neighborhood of \$5,600,000. On the expenditure side of the budget, the increase in expense of operation of the municipality, due to the European war, has undoubtedly been large

but it is beyond the realm of close estimation. To offset the losses in revenues and increased operating costs the people have authorized special levies which in round figures have totaled about \$5,000,000, so that the net loss in revenues has been \$600,000, approximately, in the last eleven years entirely apart from consideration of increased operating expenses. Naturally there have been increases in other of the items of miscellaneous revenue but no more than might reasonably have been expected.

Means of Meeting the Situation

To balance the budget for 1927 (under assumption that the amendment will fail of approval) several avenues are open to the Council—(a)—a general reduction in salaries and some reductions in the items of supplies and materials, keeping the present service intact and continuing all activities as they now are or substantially so; (b)—a general reduction in personnel consequent upon a reduction in service or abandonment or curtailment of certain activities; (c)—the discovery of additional sources of revenue which might permit continuance of service, perhaps without drastic cuts in personnel or reductions in salaries.

A general salary reduction evidently would disrupt the departments and bring about an exodus of the better class of employees.

A general reduction in personnel would cause neglect of the City's properties and be productive of large but not readily ascertainable losses. To attain a balance would unquestionably affect in greater degree the larger bureaus. In some of these personal service consumes nearly 90% of the allowance and it is to be expected that these bureaus would suffer cuts in personnel. Just where and in what degree the reductions would be made is for determination of the Council and the committee refrains from making any specific observations on this point.

The imposition of increased license fees would doubtless be feasible but to lay out fair and reasonable schedules to stand the test of a possible review by the courts would require considerable study and the holding of public meetings. An occupation tax might be levied but the validity of the ordinance imposing it would, in all probability, be litigated, so that inclusion of an estimated return from such an imposition, even if time were available to pass a valid ordinance, would be very questionable. Fees for building and other construction permits might be largely increased but returns from these would fall far short of overcoming the large adverse balance. The committee does not wish it understood, however, as indicating that there is no possibility of relief in this direction or in the direction of savings by efficiency methods in

administration. As a matter of fact this amendment is not a specific authorization of a definite tax levy but rather a tax limit and your committee suggests that all efforts should be made by the Council both to secure additional miscellaneous revenues and to reduce expenditures by efficiency methods so that it may not be necessary to levy up to the limit provided in this amendment.

At this point it should be observed that with a limitation of 8.0 mills there could be no increase in returns to meet growing needs except following increases in assessment, and even with a large addition to the assessment roll there could be no increase in tax returns beyond the constitutional limitation.

Legal Aspects of the Proposed Measure

Some question having been raised as to the extent of authority granted to the Council under the measure and as to the authority of review of the annual budget by the Tax Commission, the committee obtained a verbal opinion of the City Attorney's office to the effect that the authorizations of the measure would be permissive only and could not be considered as mandatory upon the Council. In other words coming under the 8.0 mills limitation or under the special authorizations voted by the people between 1919 and 1926. Such being the case, the statutory requirement in the act establishing the Tax Commission would have to be complied with and the annual city budget therefore would have to be submitted to the Tax Commission for review and certification. The committee feels, therefore, that there is no probability of a dispute over jurisdiction in the matter of budget submission and that criticisms of the measure by some who felt the danger of uncontrolled authority of the Council in the levying of taxes may be set down as without merit. In addition to the expressions of the City's legal agents, all the members of the Council have assured the committee it was their intention not to depart from past procedure, which comprehends submission of the budget estimates in October of each year.

Conclusions and Recommendations

Because of the short time allowed for making a critical review of the problem confronting the Council and the extreme complexity of the whole question, which for complete analysis would make necessary a thorough survey of all the functional and financial questions present to a large city, the committee feels that it is not called upon to do more than consider the proposed legislation in its broadest aspects. It has been supplied with certain financial statements from the Auditor's office and from the Tax

Commission's office, which, in detail, show the effects flowing from application of the amendment under certain assumptions. It has considered these as well as studied the matter under certain other assumptions, as to assessment, extent of levy, etc., and has concluded that there is really little difference of opinion in respect to the ultimate results to come from the financial program outlined. It is convinced of the seriousness of the present situation and that without immediate relief there is bound to be a drastic revision of the whole municipal program of activities, whatever form this may take. It is the Council's responsibility to devise a plan which will best accomplish the balance of the budget but on the other hand it is manifestly unfair to deny the Council the means to carry out a program of activities which over the years have been desired by the citizens, and then be critical of its action if such action result in a great shock to the municipal business. In a growing city like Portland, whose expansion cannot reasonably be predicted for a long period of years, keeping in mind the constitutional limitation on taxes, there must be a certain leeway in financial provisions whereby extraordinary occurrences or defects of estimation may quickly and adequately be overcome. The present condition of the City treasury and the deadening effect of the existing tax limitation clearly indicate that there is no ready way to avoid a general upheaval of the municipal organization as well as to provide for future demands for service, except by authorization of a tax, which will save the City from extreme confusion, not alone in 1927 but going on for later years and which will by careful conservation permit the gradual accumulation of a surplus, placing the City on a cash basis and providing for contingencies. The committee wishes it clearly understood, however, that it regards the submitted program as not the sole outlet from the difficulty but only as one, in definite form, which has the merit of being financially sound and workable, and of immediate application.

The committee therefore unanimously recommends to the Club public approval of the measure, particularly stressing the point that the Council has given assurance that regardless of any construction placed on the amendment it purposes to submit its 1927 and subsequent budget estimates for review of the Tax Supervising and Conservation Commission, as in the past.

Respectfully,

ROBERT G. DIECK, *Chairman*
JOHN A. LEE
F. H. MURPHY