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"Harmony in
Diversity"

PORTLAND CITY CLUB BULLETIN

"Active
Citizenship"

VOLUME XIII

PORTLAND, OREGON, OCTOBER 14, 1932

NUMBER 24

FRIDAY, OCTOBER 14

HOTEL BENSON; 12:10

SPEAKER

SENATOR FREDERICK STEIWER

*U. S. Senator from Oregon
Member, Senate Committee on Appropriations*

SUBJECT

"Business Recovery"

Confidence that the extreme low point of the business depression has been passed and that revival is under way was expressed by a large majority of business leaders in answer to a questionnaire sent out by a New York banking house last week. What is the actual status of business recovery? What has been the effect of Federal Legislation upon it?

Senator Steiwer has recently returned from the East and brings advanced information on the much hoped for upward turn of the "business cycle."

AND ALSO

AN OPEN FORUM

TO DISCUSS

REFERENDUM ON OLEOMARGARINE TAX

Final action on this report was postponed at the request of the committee.

AMENDMENT TO THE PERSONAL INCOME TAX LAW

TAX AND DEBT CONTROL CONSTITUTIONAL AMENDMENT AND THE TAX SUPERVISING AND CONSERVATION BILL

The reports on these measures are printed in this week's *Bulletin* and will be presented for action today.

TAX AND DEBT CONTROL MEASURES ARE FAVORED

A Report by the Taxation Section

To the Board of Governors of the City Club:

Your committee, instructed to study and report upon the "Tax and Debt Control Amendment" to the Constitution and on the "Tax Supervising and Conservation Bill," both of which are upon the ballot for the November election by virtue of initiative petitions, reports as follows:

THE CONSTITUTIONAL AMENDMENT

It is proposed to amend Article XI of the Constitution by the addition of the following:

Section 11a.—All powers of the state and of each county, municipality, district and body thereof to levy taxes and to incur indebtedness shall be exercised subject to such limitations and control as may be provided by general law. Provision may also be made by general law for systems of accounting, auditing of finances and forms of budgets of the state and of all counties, municipalities, districts and bodies thereof.

In the voters pamphlet the proponents of the amendment urge that "it would be merely an enabling act for any general statute restraining and regulating state and local taxes or indebtedness." It is also stated that it would not amend any existing section of the constitution and particularly that it would leave the 6% tax limitation unimpaired. It would, however, enable

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TO INCREASE INCOME TAX NOW IS UNWISE

A Report by the Taxation Section

To the Board of Governors of the City Club:

Your committee has made a study of the Personal Income Tax Law Amendment Bill which was proposed by Initiative Petition sponsored by the Oregon Taxpayers' Equalization and Conservation League. This bill proposes to further reduce property taxes by (1) advancing the present maximum from 5% on incomes of \$5,000 and more, to 8% on \$8000 and more; (2) adopting the so-called Wisconsin plan of exemption which radically increases the tax on small incomes. The tax is computed against the entire net income, then a \$10 exemption is allowed to a single person and \$20 to a married person plus \$4 for each dependent, thus a single person receiving \$2000 income will pay \$20 tax compared to \$5 at present and a married man with two dependents receiving a \$3000 income will pay \$32.00 compared to no tax at present. (See appended table.)

The State of Oregon is committed to the income tax. The only question before this committee, therefore, is the advisability of increasing this particular form of tax burden at this time. The income to be derived is claimed to be for the purpose of offsetting or eliminating the state real property tax levy. The existing statute

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Tune in KEX at 8:30 P. M. Sunday

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City Club dues are \$1.00 per month, payable semi-annually on May 1st, and November 1st. There is no initiation fee.

The regular Friday luncheon meetings are held in the Crystal Room of the Benson Hotel.

CITY CLUB PURPOSE

"To inform its members and the community in public matters and to arouse them to a realization of the obligations of citizenship."

THE CITY CLUB BOARD of GOVERNORS

- RICHARD W. MONTAGUE *President*
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RUSSELL W. BARTHELL *Executive Secretary*

APPLICATION FOR MEMBERSHIP

The following application for membership, having been approved by the Board of Governors, is hereby recommended to the Club.

If no objections are filed with the Board of Governors or the Executive Secretary prior to October 28, 1932, this applicant will, under the Constitution, stand elected.

PHILIP CHIPMAN
 Attorney-at-law
 1410 Yeon Building
 Recommended by Wm. L. Brewster, Jr., Charles A. Hart, and John C. Failing.

BOND LEVY IN CHARTER OPPOSED BY COMMITTEE

A Report by the Taxation Section

To the Board of Governors of the City Club:
Your committee was authorized to study the proposed amendment to the charter of the City of Portland, known as Section 346, Special Tax for Musical Concerts.

The committee consulted with the proponents and other interested organizations. We realize the importance of good music and recognize that a municipal band would have advertising value, economic value, entertainment value, cultural and educational value, and employment value.

The committee does not believe that tax measures should be introduced into the City Charter as amendments, nor does it believe that a fixed sum should be set aside for an extended period of time for the support of a band and the matter thus taken out of the hands of the administrative body of the City and the Tax Conservation Commission.

Insofar as the bill would serve as an employment relief measure, we believe that its introduction into the City Charter is unsound in principle.

The committee therefore recommends that the measure be opposed.

Respectfully submitted,
 PATRICK BACON,
 R. R. MORRIS,
 HENRY S. MEARS,
 E. R. ABBETT, *Chairman*,

Approved by James J. Sayer, chairman of the Taxation Section.

Accepted by the Board of Governors and ordered printed and submitted to the membership of the City Club for consideration and action on October 14, 1932.

INCOME TAX BILL

Continued from Page 1

contains an express mandate that every dollar received from income taxes (quoting from act) "shall reduce by corresponding amount the direct tax levy which the tax commission would otherwise apportion to the several counties of the state."

For the current year, no direct levy on real property was made for state purposes by the state tax commission, due to favorable returns from the existing corporate excise, intangibles and personal income taxes, plus economies in expenditure. However, we are informed that if this amendment is not passed, the state will face a current deficit requiring a revival of the levy on real property.

Incomes, dividends, interest and profits are closely geared to the fluctuations of business activity. As recent experience of the Federal Government clearly shows, taxes from such sources suffer great variation, present returns being barely one-third of the peak. Accordingly, the government has been forced to adopt a multitude of emergency taxes of a non-income nature.

Income Tax Not Depression Proof

It is unwise, we believe, to attempt to solve a similar emergency in state revenues by a further boost in a type of tax which has proved so unreliable as a "depression proof" tax. Alternatives are further revision of the expense budget, recourse to the reasonably sure property

tax and to other forms of relief taxation which can be considered by the coming legislature. Such alternatives are not pleasant to the taxpayer, but still less so is this proposed amendment of our basic tax laws for emergency purposes, as the following considerations show:

1. Income tax is so highly fluctuating in yield that a return adequate for a time of depression, would expand greatly with improvement in business activity, encouraging extravagance in government administration.

2. Income taxes on small incomes multiply chances of evasion and involve expensive administration.

3. A tax measured entirely by money income is certain to set heavily on the urban population where the business of living is measured wholly in money, and lightly on rural population of the same living standards. In the latter case, such important needs as food, fuel, and so on are in large part obtained directly from the soil and without the use of money. Thus the proposed amendment borders closely on class legislation.

4. An emergency tax, a levy on incomes, being a burden on a minority of voters, will be difficult if not impossible to remove, compared to some form of nuisance or consumption tax which would burden the entire electorate and thus invite removal at the earliest possible moment.

5. Emergency tax measures should be left to the legislature where the power to speedily amend, alter or revoke is free and untrammelled, rather than decided by a vote of the people whose mandate the legislature is loath to tamper with, thus rendering repeal or modification of this amendment highly improbable.

We recommend a negative vote on this amendment.

COMPARISON OF INCOME TAXES PAYABLE UNDER THE PRESENT OREGON INCOME TAX LAW AND UNDER THE "AMENDMENT BILL"

INCOME FROM OTHER THAN INTANGIBLES	SINGLE PERSON		MARRIED PERSON WITH TWO DEPENDENTS	
	Present Law	Amended Law	Present Law	Amended Law
\$ 1,000.00.....	0	0	0	0
1,250.00.....	0	\$ 5.00	0	0
1,500.00.....	0	10.00	0	0
1,750.00.....	\$ 2.50	15.00	0	0
2,000.00.....	5.00	20.00	0	\$ 2.00
2,250.00.....	7.50	27.50	0	9.50
2,500.00.....	10.00	35.00	0	17.00
2,750.00.....	15.00	42.50	0	24.50
3,000.00.....	20.00	50.00	0	32.00
3,250.00.....	25.00	60.00	0	42.00
3,500.00.....	30.00	70.00	\$ 2.00	52.00
3,750.00.....	37.50	80.00	4.50	62.00
4,000.00.....	45.00	90.00	7.00	72.00
4,500.00.....	60.00	115.00	14.00	97.00
5,000.00.....	80.00	140.00	24.00	122.00
5,500.00.....	100.00	170.00	36.00	152.00
6,000.00.....	125.00	200.00	51.00	182.00
7,000.00.....	175.00	270.00	88.00	252.00
8,000.00.....	225.00	350.00	135.00	332.00
9,000.00.....	275.00	430.00	185.00	412.00
10,000.00.....	325.00	510.00	235.00	492.00

Respectfully submitted,
 DR. N. L. ZIMMERMAN,
 DAVID T. MASON,
 GRAVES F. CROWLEY,
 M. A. TAYLOR,
 IVAN W. ELDER, *Chairman.*

Approved by James J. Sayer, chairman of the Taxation Section.

Accepted by the Board of Governors and ordered printed and submitted to the membership of the City Club for consideration and action on October 14, 1932.

TAX AND DEBT MEASURES

Continued from Page 1

more restrictive limitations and more effective control over taxes and indebtedness.

The absolute necessity of this amendment was not immediately apparent to this committee but a careful study of the matter persuaded us that it will not affect the 6% tax limitation nor will it change the debt limitation provisions for state and counties as now provided for in sections 7 and 10 of Article XI, of the Oregon Constitution. The scope of any general laws passed under the authority of this amendment would be governed by such restrictions.

This amendment, while possibly adding little to the powers now possessed by the legislature as declared by the supreme court, provides an affirmative declaration which will effectively meet reluctant acquiescence, or even rebellious opposition on the part of many local governmental units to any general law designed to supervise the levying of taxes, the control of public expenditures or the contracting of indebtedness. It would obviate a possible long delay in litigation testing the validity of any general law passed to provide tax supervision and conservation. It further appears clear that the proposed amendment would not injure or destroy the autonomous privileges which municipalities now have under the constitution as defined and construed by the supreme court in a long line of cases.

The proposed amendment paves the way for more stringent measures of limitation of taxes and for control over the power to contract indebtedness which is in line with the great wave of retrenchment which is sweeping over the country and which is the greatest problem the American people face at this time.

We therefore recommend that the Tax and Debt Control Amendment be approved.

THE TAX SUPERVISING AND CONSERVATION BILL

The purpose of the bill is to provide a non-salaried board of three members for each county, appointed by the Governor, to review and decrease budgets when deemed necessary and to regulate tax levies of the county and of all municipal corporations therein. It provides for appeal from any order of the board to the State Tax Commission, either by the levying body or by ten interested taxpayers. It further provides that the board shall hold hearings and make advisory recommendations as to special tax levies and bond issues; but such recommendations are merely advisory. In spite of them, the voters may still authorize the special levy or the bond issue.

Except as to the provision for recommendations on bond issues and special levies, and a few minor changes, the proposed bill is a copy of the statute now in force for Multnomah County alone. This act has been in force since 1919 and, it is generally agreed, has been successful and effective. The local commission has used good judgment and, almost unaided by intervention of taxpayers, has kept within bounds the occasional tendency toward extravagance of tax levying bodies. Without legal authority to do so, the Multnomah Commission has by its influence greatly improved the forms and accuracy of budgets and accounts submitted by the various municipalities under its jurisdiction, and by virtue of its constant examina-

tion of such budgets and accounts, in effect it has become an auditing body.

The experience in Multnomah County has been so convincing that this Committee believes a similar law operating throughout the state will be of great value.

Additional Control Is Necessary

While the committee unanimously approves the adoption of the bill as submitted to the voters, its limitations are recognized insofar as the control which can be had by more adequate state-wide accounting and public audits is concerned. The need of adequate control of public expenditures still exists.

The present local budget law described what the budget shall contain, but there is no penalty if the requirements are not observed except that an objection may be made to the State Tax Commission by the assessor, the county court, or ten taxpayers. But there is no requirement that the local budget board or the levying body shall file its budget with anyone except with the levying board. Therefore, the assessor and the county court are without information on which to object, and any expectation that taxpayers will examine budgets and raise objections is largely an illusion. Before the year 1931, the taxpayers paid little or no attention to budgets or levies until the time came to pay taxes. For example, the hearings of the Multnomah Tax Supervising and Conservation Commission were practically unattended by the public except when increased expenditures were demanded, and the same is true of the budget hearings in Oregon City. There are many tax levying boards throughout the state which do not make any budget as defined by the statute because officers cannot and taxpayers do not control budget making bodies.

The accounting systems throughout the state are in much the same condition. There is a law which requires the Secretary of State to "formulate and prescribe a standard and uniform system of accountancy for all municipal corporations," except those in Multnomah County; and in further states, "It shall be the duty of all officers or employees of any municipal corporation coming under the provisions of this act to keep or cause to be kept a system of accountancy prescribed by the Secretary under the provisions of this Act." The Secretary of State has done his part, but neither he nor anyone else has power to compel the municipalities to keep their accounts in the prescribed form, and very generally they do not.

Except as required by certain city charters, there is no compulsory audit of municipal corporations. There has been an increasing use of certified public accountants by such public bodies, often beginning after official embezzlement is discovered or when the accounts have fallen into such a mess that no local person could untangle them. Although there is considerable improvement in accountancy resulting from C. P. A. audits, this applies only to the larger municipalities, for such auditors are rarely called in for the smaller governmental units. Moreover, because he speaks without legal backing, a C. P. A. can only recommend changes in accounting, and the municipality may not, and often does not, follow his recommendations.

Complete Financial Statements Are Needed

Because of this lack of system in bookkeeping, the taxpayers, and worse still, the tax-levying boards, are left without plain and complete financial statements on which to act. The results

of such ignorance are considerable waste and extravagance and an occasional embezzlement.

The remedy would be to provide that some state official or board should have supervision and effective control over municipal budgets and accounts, so that they must be kept on forms suitable to the size of the municipality and with complete accuracy. Therefore it is suggested that: (1) The State Tax Commission (although the power may be placed in some other board or official) be empowered to prescribe standard forms of budgets and accounts and reports, such as will be uniform as to each class of municipalities; (2) Every municipal board, officer and employee shall prepare budgets, keep accounts and make reports as prescribed by the State Tax Commission and refusal or neglect to do so should be an offense punishable by removal from office after trial and conviction by a competent court; (3) The State Tax Commission, or other competent authority, should be given authority to appoint examiners to audit the accounts of municipalities, and have power to investigate, subpoena and examine under oath. If such examination discloses malfeasance, misfeasance, or nonfeasance on the part of any public officer or employee, it should be the duty of the Attorney-General to prosecute without delay such civil action as is proper; (4) The expenses incurred by the State Tax Commission in the preparation of forms, rules and regulations, and also for any other service, equipment, and supplies necessary in its office, shall be paid out of the state general fund; (5) The expense of auditing all such public accounts should be borne by each municipality or tax levying body and the expense of such audit should be certified to the County Assessor for distribution of payment among the subordinate municipalities in accordance with the respective parts of the levy due from them.

The above recommendations are based on the Washington statute, a similar law existing in Ohio, Indiana, and Minnesota.

This report does not deal with means to prevent municipalities from spending more than their income and the consequent issuance of warrants without taxes levied to pay them. Nor does it attempt to discuss many other causes of high taxes. It is believed, however, that municipal bookkeeping which is accurate and which can be understood by any intelligent and painstaking citizen will so inform officials and taxpayers of the true financial standing of the municipality that they will realize their condition and be less likely to indulge in extravagance and waste.

RECOMMENDATIONS

Your committee recommends:

1. That the Tax and Debt Control Amendment to the Constitution be approved.
2. That the Tax Supervising and Conservation Bill be approved.
3. That additional legislation on budgets, accounting and audits as above outlined be proposed at the next meeting of the legislature.

Respectfully submitted,

A. L. ANDRUS,
WILLIAM L. BREWSTER,
W. P. JONES,
MOE M. TONKON,
L. A. WEST,
A. L. GORDON, *Chairman.*

Approved by James J. Sayer, chairman of the Taxation Section.

Accepted by the Board of Governors and ordered printed and submitted to the membership of the City Club for consideration and action on October 14, 1932.