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Report on Grants Metropolitan Service District Electors Right to Self-Governance (State Ballot Measure 1)

City Club of Portland (Portland, Or.)

Report on

GRANTS METROPOLITAN SERVICE DISTRICT ELECTORS RIGHT TO SELF-GOVERNANCE

(State Ballot Measure 1)

Published in
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This report includes both a Majority and a Minority recommendation. The City Club membership will decide which recommendation to support at the vote taken on November 2, 1990. Until that vote, the City Club does not have an official position on this measure. The outcome of the membership vote will be reported in the City Club Bulletin (Vol. 71, No. 25) dated November 16, 1990.

Report on GRANTS METROPOLITAN SERVICE DISTRICT ELECTORS RIGHT TO SELF-GOVERNANCE (State Measure #1)

To the Board of Governors,
City Club of Portland:

I. INTRODUCTION

Ballot Measure 1, referred to the voters by the Oregon Legislature, would amend the Oregon Constitution to require legislation enabling voters of metropolitan service districts to adopt a charter. The only such district in Oregon is commonly known as METRO which serves the urban areas of Multnomah, Washington, and Clackamas counties. Currently METRO is regulated by state statute, and any changes affecting METRO must be adopted by the legislature. Ballot language follows:

Question: Shall state constitution grant metropolitan service district voters the right to self-governance, over metropolitan matters, through district charter?

Explanation: Adds new provision to Oregon Constitution. Requires legislature to pass laws giving metropolitan service district electors power to adopt, amend, revise, repeal district charter by majority vote. Requires district charter to prescribe government organization and provide for number, election or appointment, qualifications, tenure, compensation, powers and duties of officers. Provides for exercise of powers by ordinance. Gives district jurisdiction over metropolitan matters as defined by charter. Gives district electors initiative and referendum powers regarding district charter and legislation, to be exercised as county powers are exercised.

II. BACKGROUND AND HISTORY

METRO was created in 1978 as a regional government to provide regional services in Multnomah, Washington, and Clackamas counties. METRO is composed of a 12-member elected council and an elected executive. Its statutory authority allows it to provide specific regional government services, including operating the Washington Park Zoo, building and managing the Oregon Convention Center, overseeing solid waste disposal, and providing regional transportation planning services. The council has statutory authority to adopt ordinances within the limits of METRO's enabling legislation and has the power to levy ad valorem property taxes within statutory limits.

The 1986 City Club report on "Regional Government in the Portland Metropolitan Area," recommended that the three metropolitan counties be merged into one home rule county to provide regional services to the people in the metropolitan area.

In 1987, a Task Force on Metropolitan Regional Government studied a wide range of issues related to regional government within the tri-county metropolitan area. This 11-member task force was chaired by Senator Glenn Otto and consisted of four state legislators, three county commissioners (one each from Clackamas, Multnomah, and Washington Counties), and four members of the general public.

Among other items, the Task Force recommended that METRO should be governed by the voters it serves rather than by the Legislature. The Task Force recommended, and the legislature adopted, Senate Joint Resolution 2 (known hereafter as Ballot Measure 1).

This measure, if adopted, would direct the legislature to establish a procedure by which voters in metropolitan service districts can adopt a charter. A charter could then be drafted and submitted to METRO voters for approval. Voters of the district would be allowed to adopt, amend, or repeal a charter for their district, as well as ordinances adopted pursuant to the charter, through the citizen initiative and referendum process. METRO would continue as it currently is until a charter is drafted and approved by the voters.

III. ARGUMENTS IN FAVOR

Proponents of Ballot Measure 1 advanced the following arguments in favor of the measure:

1. Voters who receive and pay for regional services should control the form, function and powers of regional government.
2. Passage of this measure will begin a process to create a locally designed charter for METRO.
3. The process of creating a charter will provide the opportunity to remove structural flaws.
4. METRO has reversed the negative public perception of its performance. It is a good time to deal with structural changes and improvements.
5. The process for approving a charter by the voters will encourage public discussion and awareness of regional government and METRO.
6. It is a waste of legislative resources for the state legislature to control the form of government of one region.

IV. ARGUMENTS IN OPPOSITION

Opponents of Ballot Measure 3 advanced the following arguments in opposition:

1. The best way to achieve effective regional government is to merge the three metropolitan counties.
2. The passage of Measure 1 will perpetuate the perception that METRO is just another inefficient "layer" of government.
3. The charter process will likely be dominated by the Portland urban area to the detriment of those in the outlying areas of the region.

4. There is risk that the new form of government will be flawed, will have the ability to assess more and/or higher taxes, will take power from existing local governments, will be subject to excessive initiative and referendum actions, and will not have adequate "checks and balances" for all the new powers.

5. The Legislature's "watchdog" role over METRO is necessary because local voters know or care little about METRO.

6. The performance of METRO has been inconsistent. It has not matured enough to take this next step.

7. A more powerful METRO means less citizen access to the services and the public officials that control them.

V. MAJORITY DISCUSSION

Both your Majority and your Minority agree on the importance of regional government. As found in the 1986 City Club report on regional government, some problems and needs are regional in character and require regional solutions. Whether to have regional government is not an issue in this measure.

This ballot measure begins the process of transferring control over METRO from the Legislature to local voters. It appears to a Majority of your Committee that the primary issue is: who should control regional government in the metropolitan area?

A. Local versus State Control

Currently, METRO is governed by state statute. Any changes to METRO's structure, powers, or functions must be adopted by the state legislature. Although the region is represented by a number of legislators, those legislators do not make up a majority of either house. Thus, any legislation must receive support from legislators from other areas of the state.

According to proponents, this situation is problematical for both legislators and METRO. Proponents contend that many legislators do not appear to be interested in the Portland metropolitan region and are sometimes willing to barter their votes on METRO issues. In addition, there is a belief that some legislators vote against METRO issues solely because of a historical rivalry between urban and rural legislators.

Opponents counter that regional government is still in its early stages of development and legislative oversight is needed. They contend that local voters know little about the functions of METRO and the legislature serves an appropriate "watchdog" role.

Your Majority was not persuaded by the arguments of either the proponents or the opponents; however, your Majority supports the principle of local control. Voters in the region who receive and pay for regional services havea larger stake in the outcome of regional issues than do legislators from throughout the state. Voters in the region might not know much about METRO's functions or activities and they may not care, but the same could likely be said of voters in any city, county, or other governmental unit. That is insufficient reason to maintain state control over regional functions.

B. Public Awareness of the Issue

Your Majority believes that one of the most compelling arguments for passage of the measure is that the process of creating a charter for METRO would educate the public about regional government and, in so doing, would inform voters about METRO and its role. The media would likely give wide coverage to the appointment of a charter commission. Then, when the charter is drafted, there would certainly be extensive public discussion about its content and the merits of regional government, its purposes, powers, and services.

This anticipated far-reaching public debate and discussion will safeguard against the "bad government" some opponents fear will result. The opportunity to focus community attention on services provided by the regional government outweighs the possible inconvenience of a cumbersome process or an imperfect charter draft.

C. METRO's Structure

Among many considerations regarding METRO in recent years, the question of structure has been a continuing concern. The 1986 City Club report as well as testimony before your Committee identified flaws in METRO's governing structure. Some cited the ambiguity between the roles of the executive officer and the council as being a problem. There were also differences of opinion over how large the council should be. Although proposals have been forwarded to the legislature to change the structure, these changes have not been adopted. The charter process will provide the local voters the opportunity to address these perceived flaws.

D. The Limits of Measure 1

Some witnesses contend that the measure is "deficient" because it does not specify how the charter commission would be created or what rules would govern its actions. Ballot Measure 1 purposely does not address those issues. It is one step toward local control and is limited to this first step. Should Measure 1 pass, the legislature will simply create a process to draft a charter.

Ballot Measure 1 does not in itself create a charter. It does not set up a charter commission. It does not define rules to govern such a commission. It does not change METRO or eliminate any other governmental unit. Ballot Measure 1 only requires the legislature to adopt a process by which voters in the Portland metropolitan area can draft a charter.

VI. MAJORITY CONCLUSIONS

1. It is more appropriate for voters in the Portland metropolitan region who receive and pay for regional government services to decide the form and functions of regional government.

2. The process of creating a self-governance charter for METRO will educate the public about METRO and the need for regional approaches to regional problems.

3. This measure is a step towards effective and efficient regional government in the metro area.

VII. MAJORITY RECOMMENDATION

A majority of your Committee recommends a "yes" vote on Ballot Measure One.

Respectfully submitted,

Linda Ecker
Rosemary Fisk
Norman Frink
Ross Hall
Ann Holznagel
Karen Krone
Mary McCarthy, Chair
FOR THE MAJORITY

VIII. MINORITY DISCUSSION

Your Minority supports the concept of regional government and believes that rather than create another "home rule" government, effective regional government can best be achieved through the consolidation of existing counties. This was the recommendation of the 1986 City Club report on "Regional Government in the Portland Metropolitan Area", and it is the approach urged by several persons who addressed the Committee.

The need for a strong regional government with a clear vision of its mission and role is essential. This ballot measure does not mandate the elimination of any other governmental entity and could effectively foster the perception, if not the reality, that METRO is just another layer of government seeking more taxes to support itself.

This measure is deficient because it does not define how the commission charged with drafting a charter would be created or what rules would govern its actions. Testimony was given that rural county issues are often misunderstood by central city officials. The newly franchised commission and charter could be dominated by the interests of the Portland core to the detriment of the outlying areas.

In addition, the vagaries imposed by the initiative and referendum process, which is part of "self-governance", may result in frequent efforts to change the charter and lead to continual instability. At the very least, "self-governance" with its companion initiative process could load the ballot with measures most citizens do not understand or care about. Frequent, often capricious, electoral measures have detracted from Multnomah County's ability to efficiently operate since its last charter change.

Based on voter interest in and turnout for METRO elections, it appears that local voters are largely disinterested in METRO and its elective positions. This is due, we believe, to a lack of understanding of METRO's role and contributions to date. As METRO develops its long-term plans for the region and continues to gain experience in operating regional programs, voter interest in regional issues and elective processes could increase. Cooperative approaches to regional problems are gaining acceptance by local governments and agencies. The Joint Policy Advisory Committee on Transportation (JPACT) is often cited as a good example of evolving regional cooperation.

This evolutionary process towards regional government, gradually replacing the existing local government, should be nurtured and allowed to develop. The variety of services that could best be administered on a regional level, such as the parks, jails, and solid waste management, is clear. What is not evident is how a locally-adopted charter for METRO would enhance its ability to mature into the kind of regional government needed to address these services.

The legislature's present control of METRO is viewed positively by many. METRO is not seriously hampered by present legislative control. METRO did not identify any serious impediments imposed upon the organization currently by the legislature which would necessitate home rule or which would not continue under home rule if local voters exercised local control. METRO, in its present condition, may be better understood and managed by the legislature.

IX. MINORITY CONCLUSION

Your minority supports a strong regional government with a clearly communicated vision of its mission, role and approach to regional issues. Your Minority concludes that Measure 1 is not the best way to accomplish that goal.

X. MINORITY RECOMMENDATION

Your minority recommends a "no" vote on Ballot Measure 1.

Respectfully submitted,

Jim Bartels
Susan Schreiber
Kay Mannion, Spokesperson
FOR THE MINORITY

Approved by the Research Board on October 11, 1990 for transmittal to the Board of Governors. Approved by the Board of Governors on October 15, 1990 for publication and distribution to the membership, and for presentation and vote on November 2, 1990.

Appendix A

Persons Interviewed

Earl Blumenauer, Portland City Commissioner

Ron Cease, State Representative

Rena Cusma, Executive Officer, Metropolitan Service District

Bill Dwyer, State Representative

Stephen Herrell, Circuit Court Judge and member of 1986 City Club Regional Government Committee

Gretchen Kafoury, Multnomah County Commissioner

Sharron Kelley, Multnomah County Commissioner and former Metro Councilor

Bill Kennemer, State Senator

Greg McMurdo, lobbyist, Metropolitan Service District

Glenn Otto, State Senator

Mike Ragsdale, METRO Councilor

Larry Sowa, State Representative

Appendix B

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Report on

STATE CONSTITUTIONAL LIMIT ON PROPERTY TAXES FOR SCHOOLS, GOVERNMENT OPERATIONS

(State Ballot Measure 5)

Published in
City Club of Portland Bulletin
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This report includes both a Majority and a Minority recommendation. The City Club membership will decide which recommendation to support at the vote taken on November 2, 1990. Until that vote, the City Club does not have an official position on this measure. The outcome of the membership vote will be reported in the City Club Bulletin (Vol. 71, No. 25) dated November 16, 1990.

REPORT ON
STATE CONSTITUTIONAL LIMIT ON PROPERTY TAXES FOR SCHOOLS, GOVERNMENT OPERATIONS
(State Measure #5)

To the Board of Governors,
City Club of Portland:

I. INTRODUCTION

Ballot Measure 5 is a proposed amendment to the state constitution that would limit the amount of property taxes that may be raised to fund schools and local government operations. The measure was placed on the ballot by initiative petition sponsored by the Protect Oregon Property Society (POPS) led by Don McIntire and Tom Dennehy. The measure as it appears on the ballot is as follows:

Question: Shall constitution set limits on property taxes, and dedicate them to fund public schools and non-school government operations?

Explanation: Amends constitution. Limits 1991-92 property taxes for public schools to $15, and property taxes for non-school government operations to $10 per $1,000 of market value. Schools limit gradually decreases to $5 per $1,000 in 1995-96 and after. Government operations limit remains same. Limits do not apply to government assessments, service charges, taxes to pay certain government bonds. Assessments, service charges shall not exceed cost of making improvements, providing services. General Fund to replace, until 1996, school funds lost due to schools limits.

II. BACKGROUND

A. History

The Oregon Territory first enacted a property tax law on June 25, 1844, 15 years before statehood. In 1915, Oregon voters passed a constitutional measure limiting revenues derived from property tax base levies to 6 percent above the highest levy in any of the three preceding years. A vote of the people was thereafter required for any tax base increase beyond the 6 percent limitation. Oregon's first property tax relief measure, the "Property Tax Relief Act of 1929," was approved by the voters in 1930 and, with companion legislation, imposed a personal income tax on Oregonians for the first time. The state has the authority, subject to voter approval, to levy its own property tax, but has never done so.

Historically, property tax limitation measures have not fared well in Oregon. On five occasions since 1978, Oregon voters have rejected property tax limitation measures.

B. Current Property Tax System

Oregon has a "tax base" rather than a "tax rate" property tax system. This means that the voters approve a tax base, i.e., a maximum dollar amount of tax a district may levy. The tax rate is determined by dividing the tax base by the total dollar value of all assessed property. Under this system, an increase in assessed value does not automatically increase the taxes paid on that property. Further, each taxing unit determines what it needs to raise in tax revenues, independent of fluctuations in assessed values of property, and independent of what each property owner will pay. Assuming that a taxing unit has an updated tax base, a vote is required only if the taxing unit wants to raise an amount more than 6 percent over its last year's tax base.

Most school districts are largely supported by local property tax dollars. An average of 57 percent of school district revenues come from local property taxes, with 22 percent provided by Basic School Support, provided from the state General Fund. The rest comes from a variety of state and federal sources, including grants and timber fees.

Two-thirds of Oregon's school districts currently operate within their existing tax bases. For the other third, with out-dated or non-existent tax bases, voter approval must be obtained annually for special levies to fund school operations. Such levies are frequently defeated, and from 1981 to 1986 seven districts temporarily closed until they could secure voter approval. To avoid further closures, Oregon voters approved a constitutional amendment allowing school districts to levy the same amount as in the prior year without voter approval. The "Safety Net" amendment was designed as a stop-gap measure until a permanent solution to funding Oregon's schools could be found.

The state General Fund, which provides 22 percent of local school revenues, is derived from personal income taxes (85 percent of the General Fund), corporate income taxes (8 percent) and fees and other miscellaneous charges (7 percent). Oregon has never had a general sales tax, and has a long history of rejecting such a tax. No sales tax measure put to the voters between 1933 and 1986 has achieved the support of even 30 percent of the voters.

Oregon ranks eleventh highest among the states in percentage of personal income paid in state and local taxes. Appendix C describes in greater detail Oregon's relative position among the states with respect to tax burdens.

C. Content of Measure 5

Ballot Measure 5 is the most recent of numerous property tax relief proposals put before the people of Oregon. It seeks to shift the burden of financing public education in Oregon from the local property tax to the state General Fund, which is largely comprised of personal income taxes.

Ballot Measure 5 divides property taxes into two categories: school taxes and non-school taxes. Schools include all public schools from pre-kindergarten through post-graduate, special education districts, and community colleges. Non-schools include city and county governments, special districts such as fire and water districts, and taxing units which cross local government boundaries such as METRO and the Port of Portland.

The measure proposes the following maximum tax rates, per $1,000 of assessed value:

Fiscal Year	School	Non-School	Total
1991-92	$15.00	$10.00	$25.00
1992-93	12.50	10.00	22.50
1993-94	10.00	10.00	20.00
1994-95	7.50	10.00	17.50
1995-96 and after	5.00	10.00	15.00

The rate limits apply to the real market value of "property", which includes real and personal, tangible and intangible property. General obligation bonds are not included in the above rate limits. If the taxes assessed against a piece of property exceed the limits, the amount received by each taxing unit within the school and within the non-school categories must decrease proportionately to bring the total tax bill within the prescribed limits. (See Chart 1 below).

The measure requires the legislature to replace from the state General Fund any revenue lost to schools because of the limits. However, the measure allows the state to limit its replacement so that total school revenue from property taxes and state replacement does not grow by more than 6 percent a year. In addition, the measure mandates replacement only through 1996. Thereafter, the legislature is free to replace or not as it sees fit. The measure does not require the legislature to replace monies lost to non-school taxing units.

Finally, the measure would override the current constitutional requirement of uniformity. Currently, all property taxpayers within a certain taxing unit, such as a city or a water district, pay the same tax rate for the services provided by that taxing unit. Under Ballot Measure 5, two property taxpayers in the same tax district may pay different tax rates. This may occur because tax rates will decrease proportionally to comply with the limits.

Chart 1 below illustrates the effect of Ballot Measure 5 on tax bills of two taxpayers in Multnomah County. The figures shown are actual 1989-90 tax rates for a property owner living in Portland and one living in Gresham. Tax rates include bonded debt which, under Measure 5, would be excluded from the total tax rate. As a result, these figures would change slightly. The chart assumes that the first year limits of Measure 5 were in effect in 1989-90.

CHART 1

Comparison of 1989-90 Property Tax Rates with Rates under Ballot Measure 5

	1989-90	First Year Measure 5
CITY OF PORTLAND:		
Schools:		
Portland School District No. 1	$16.9300	$13.1081
Education Service District	1.5016	1.1626
Portland Community College	.9420	.7293
Total School Tax Rate	$19.3736	$15.0000

Non-schools:		
City of Portland	8.7041	6.2817
Multnomah County	4.5157	3.2590
Port of Portland	.3111	.2245
Metropolitan Service District	.3253	.2348
Total Non-school Tax Rate	$13.8562	$10.0000

CITY OF GRESHAM:

Schools:		
Gresham School District No. 1	$10.0462	$ 7.6655
Gresham Union High No. 2	6.3312	4.8309
Education Service District	1.5016	1.1457
Mt. Hood Community College	1.7796	1.3579
Total School Tax Rate	$19.6586	$ 15.0000
Non-schools:		
City of Gresham	5.5460	5.1841
Multnomah County	4.5157	4.2210
Port of Portland	.3111	.2908
Metropolitan Service District	.3253	.3041
Total Non-school Tax Rate	$10.6981	$10.0000

1. Effect of the School Property Tax Limit

These figures indicate that the property owners pay similar school-related taxes totaling $19.37 for Portland and $19.65 for Gresham per $1,000 of assessed value. These amounts exceed the $15 first year limit on schools under Measure 5. As a result, each of these school taxing units would have its tax reduced pro rata until the combined tax bill of these units is $15 per $1,000 of assessed value.

2. Effect of the Non-School Property Tax Limit

For non-school taxing units, the Portland taxpayer pays a total of $13.85, which is above the Measure 5 limit of $10 per $1,000 of assessed value. The non-school taxing units would reduce the tax rate proportionately until the total non-school property tax rate is $10 per $1,000 of assessed value. The Gresham taxpayer pays a total of $10.69 per $1,000 of assessed value for non-school property taxes. The rate would again be reduced proportionately; however, this taxpayer would experience a smaller reduction than the Portland resident.

3. Effect on the Uniformity Requirement

Chart 1 also illustrates the way in which the measure would alter the current uniformity requirement. Under current law, both taxpayers pay Multnomah County $4.51 per $1,000 of assessed value. Under Measure 5, as noted above, the Gresham taxpayer's non-school tax rate will be reduced proportionately to comply with the measure's limit. That taxpayer will pay a rate of $4.22 per $1,000 of assessed value to Multnomah County, while the Portland taxpayer's Multnomah County tax rate would decrease to $3.25. Thus, Measure 5 would cause the Gresham taxpayer to pay a higher tax rate for county services than the Portland taxpayer.

The financial impact upon property taxpayers will vary greatly depending on the number of taxing districts a taxpayer lives in and the current tax rate of each of those districts.

D. CITY CLUB POSITIONS

Historically, the City Club has not supported change in the existing property tax system unless the following conditions could be met (see City Club report on "Oregon's Tax System," March 23, 1984, and City Club report on "School Finance Reform," May 8, 1987):

- Local control* of education is maintained or enhanced so long as the local program satisfies state basic education requirements; and local control of other government services is also maintained;
- Prospects for statewide economic health are maintained or enhanced;
- Lower and/or middle income taxpayers are not made worse off;
- Local governments are able to meet demands for new or expanded services; and,
- The aggregate tax burden on Oregon taxpayers is not increased.

IV. ARGUMENTS IN FAVOR

The following arguments were advanced by proponents of Measure 5:

A. This measure will immediately lessen property taxes for most Oregonians and will, over time, ease all Oregonians' property tax burden by slowing property tax increases.

B. This measure will compel the Oregon Legislature to address successfully three issues that it has not handled successfully in the past: (a) inadequate and unstable school financing; (b) escalating property taxes; and (c) fiscal responsibility in the use of tax revenues.

C. This measure will cause little harmful impact during the first biennium (1991-93) because sufficient monies will be available in the General Fund and the Public Employees Retirement System (PERS) fund to finance the expected shortfall.

D. The five year phase-in allows sufficient time for the Oregon Legislature to develop acceptable revenue reallocation or replacement plans.

E. This measure would provide a more equitable uniformity for Oregon property taxpayers.

F. This measure would curb irresponsible spending by reducing local control in Oregon's over 300 school districts and would lead to more cost effectiveness and accountability in school funding by focusing school funding and budgeting at the state level.

G. This measure would curb irresponsible spending by local governments.

* The term "local control" refers to control over program content, structure, and financing. Such control is limited by state and federal fiscal and regulatory mandates.

H. This measure makes good use of Oregon's projected economic growth to address the property tax and school funding problems. The state General Fund is expected to grow at the rate of 22 to 25 percent per biennium, generating sufficient tax revenues to offset the shortfalls resulting from this measure.

I. This measure is a method of articulating public frustration at legislative inaction in the area of property tax reform.

V. ARGUMENTS IN OPPOSITION

The following arguments were advanced by opponents of Measure 5:

A. By requiring state General Fund replacement of lost property taxes, the measure will devastate current state programs.

B. The measure creates potentially drastic changes without providing for clear solutions.

C. Some local governments will be devastated by the immediate loss of funding.

D. Because local governments will not be able to raise local funds to carry out local programs or provide some services, local control over non-school spending will be diminished.

E. Local control of schools will be put in jeopardy because replacement financing from the state General Fund will lead to state control of local school spending.

F. The measure unreasonably broadens the definition of "property" to include both real and personal property.

G. The measure requires that the Legislature do what it has never been able to do, i.e., propose a replacement for property taxes that voters will accept.

H. The measure disproportionately reduces property tax revenue for local governments throughout the state.

I. The measure offers no solution for local governments to find additional replacement revenues.

J. The measure requires the overriding of the current constitutional requirement of uniformity, causing tax inequalities among property taxpayers receiving services from the same taxing districts.

K. The measure will be complex to enforce, requiring separate calculations for each taxable area.

L. There is no substantial waste or excessive spending in state government, including the Public Employees Retirement System fund.

VII. DISCUSSION

Although its full effect cannot be determined in advance, Measure 5 would clearly affect Oregonians financially and in many aspects of their lives. The measure's immediate and intended impact would be to lower the property tax bills of owners of Oregon property. The measure would also immediately reduce funds available for non-school government taxing units in those areas of the state that currently tax at rates higher than $10 per $1,000 of assessed value. By requiring the state to replace the lost school revenues with state General Fund money through 1996, the measure would also reduce the state General Fund dollars available for other services the state currently provides.

A. Financial Impact

1. Property Owners

The genesis of Measure 5 is property owner frustration with rising property tax bills. Some property owners responded to this frustration by voting against school levies, requiring their local schools to operate with the limited funds available through the school Safety Net.

The first financial impact of the measure would be felt by individual and corporate property owners. The measure would limit the property tax bills of all property owners to $25 per $1,000 of assessed value in the 1991-92 fiscal year, and, by 1995-96 and thereafter, to $15 per $1,000.

For Oregonians itemizing deductions on federal and state income tax returns, the property tax decrease resulting from Measure 5 will be offset in part by increased income taxes (see Appendix D). For many Oregonians, however, including property owners living in the Portland metropolitan area, relief would be substantial, depending on how much the property owner pays to how many different taxing units.

2. State Government

The immediate impact of Measure 5 on state government is the requirement that the Legislature replace revenues lost to schools with money from the state General Fund. There is substantial agreement among proponents, opponents and state revenue analysts that, during the 1991-93 biennium, the state could replace the lost school revenues with only minimal difficulty. Assuming a 6 percent growth in school operating levies, the state would need to fund approximately $800 million in the first biennium.

Opponents argue that finding replacement funds from the General Fund will be more difficult in subsequent biennia. The Legislative Revenue Office estimates that, for the 1993-95 biennium, the state would need to find over $2 billion to replace school revenues lost because of Measure 5. By the 1995-97 biennium, the state would need to find over $3 billion. Even the proponents of Measure 5 do not suggest that the Legislature can find these funds without major changes in current funding practices. Since current state funding of all education already takes 45 percent of the General Fund, little would be left for the state's other services.

To replace revenue lost to schools, the state has three primary options: 1) reducing funding for state programs, 2) increasing income taxes, or 3) initiating a new tax such as a sales tax. Since Oregon already ranks fourth in the country in the percent of personal income spent on income taxes, any increase in the income tax appears unlikely. A sales tax has repeatedly been defeated by voters. Thus, the most likely option, at least initially, would be to cut state programs.

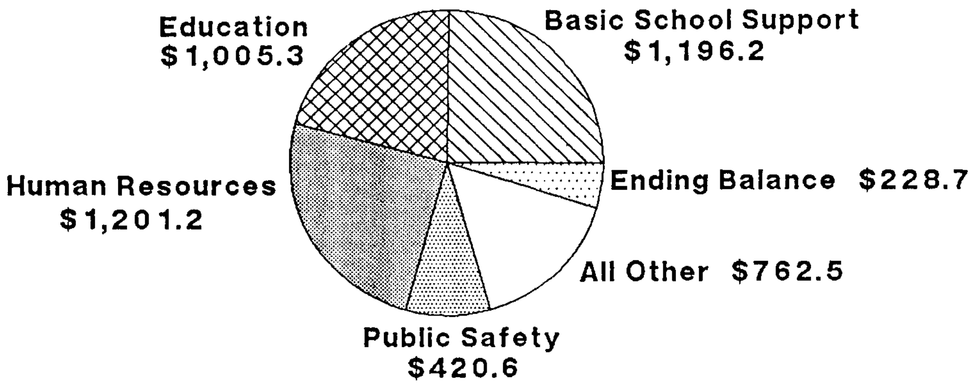
Shown below is a breakdown of a current spending of state General Fund dollars.

CHART 2

1989-91
GENERAL FUND BUDGET

BASED ON JUNE 1, 1990 REVENUE FORECAST
(IN MILLIONS OF DOLLARS)

1989-91
DISTRIBUTION OF AVAILABLE RESOURCES $4,814.5



Source: State of Oregon, Executive Department, Budget and Management Division, June 1, 1990

Opponents of Measure 5 argue from this data that the measure would seriously reduce funds available for human resources, higher education, and public safety and corrections programs. Proponents counter that the General Fund revenue has grown and will continue to grow an average of 22 percent per biennium, and that this growth will provide needed funds.

Data provided by State Economist Paul D. Warner show average revenue growth at 17 percent per biennium over the period from 1973 to 1991 and forecast 14 percent per biennium over the next two biennia. These data indicate that the proponents are overestimating the ability of the state General Fund to support current spending and the new demands Ballot Measure 5 would place on the General Fund.

As an alternative source of funds for state replacement of monies lost to schools, proponents point to the Public Employees Retirement System (PERS). Proponents allege that PERS is over-funded and that future contributions can decline without any adverse impact on PERS. They assert that independent actuaries verify this. Your Committee was informed by a state government official that there was over-contribution to PERS which should be investigated as a possible, limited source of funds.

Reliable data persuaded your Committee that the Legislature would need either to make drastic cuts in non-school areas of the state's budget to accommodate the state's replacement of lost school dollars, or find new sources of funds. The second and third biennia would be severely affected and public safety and human resources programs could be particularly hard hit.

3. Local Government

According to an estimate provided by the Legislative Revenue Office, about 30 percent of Oregon cities currently tax in excess of the proposed $10 per thousand limit. It is likely that many cities, as well as counties and special districts, would not be able to develop significant new revenue sources to meet their current budget levels. Based on state government data, your Committee is persuaded that some of these local taxing districts would experience an immediate, serious reduction in tax revenues and a corresponding threat to levels of service.

Large and small cities and counties, as well as special districts, could immediately experience significant revenue decrease. For example, in the first year, Portland revenues would decrease by approximately 24 percent and Astoria would suffer a decrease of approximately 28 percent over current budget levels. Multnomah County revenues would decline by 19.4 percent and the Sherman County decrease would be 12.7 percent. Among the special districts, revenues in the Port of The Dalles would drop 27.6 percent. Some of these decreases may be absorbed; however, alternative funding would have to be found or services would have to be substantially reduced.

4. School Districts

The replacement funding requirement ensures that school funding, in general, will not significantly decrease, so long as current levels of basic school support remain in place. Because nothing in the measure requires that the Legislature maintain the current 22% contribution of the Basic School Support fund, school revenues could decline by this amount. It is also not clear that the Legislature would allocate the replacement funds to compensate each school district precisely for its specific loss in property tax revenue. Some may consider this an opportunity to equalize per student spending across the state, although the measure does not address this issue.

B. Political Impact

1. Legislative Impact

As explained above, your Committee has concluded that the State would need additional funding sources in the 1993-95 biennium and thereafter to supply schools the replacement revenue mandated by the measure. These funds would result from legislative action either to reduce funding for existing programs or to develop new revenue sources.

Some proponents see Measure 5 as the means to compel successful legislative action to: (1) create a stable funding source for schools; (2) assure sufficient funds for necessary services by state and local governments; (3) effect proper scrutiny of current and future state spending, including PERS; (4) develop, if possible, a more equitable tax system acceptable to Oregon voters; and (5) assure fiscal restraint at all levels of government.

Your Committee could find no historical basis for believing that the Legislature would accomplish these difficult tasks to the satisfaction of Oregon voters, and the majority of your Committee was not persuaded that creating a crisis would improve the situation. Voters have historically refused to make difficult and painful choices relating to the funding of school and non-school government operations. The Legislature is likely to remain incapable of resolving this crisis of school and non-school government funding so long as the voting public does not reach some consensus on how to manage these difficult problems.

The proponents' argument that the "five-year transition" would enable the Legislature to resolve the problems resulting from Measure 5 was not persuasive. For the reasons stated above, the majority of your Committee concluded that neither a failure of legislative solutions nor a lack of popular consensus will be resolved merely by providing additional time.

2. Uniformity and Complexity of Administration

The measure adds a new meaning to "uniformity," that would prescribe uniform *maximum* property tax rates. Property taxpayers could pay different rates for the same services, in order to keep their total tax burden within the measure's limits.

Members of your Committee were divided on the importance to Oregonians of the current constitutional requirement for uniformity. We generally agreed that it was fair for taxpayers within a certain taxing unit to pay the same rate per $1,000 of assessed value for services received. Some members, however, were persuaded by the proponents argument that the uniformity of "maximum" tax rates was a reasonable alternative to the current uniformity requirements. Other members disagreed.

Given the severity of other effects of Measure 5, your Committee did not consider the measure's impact on the constitutional requirement for uniformity a compelling factor in recommending a vote for or against.

Your Committee also did not believe that increased complexity in property tax administration is a significant factor in recommending a vote for or against the measure. The larger question of an increased complexity of administration with respect to personal property, as explained below, was of concern to a majority of your Committee.

3. Redefining Property

According to the Attorney General, the word "property" as used in the measure includes both real and personal property. Your Committee was troubled by the extension of the traditional property tax law and tax limitations to personal property because it is unclear how the measure would treat different types of property. Given the broad definition of property, the rate limitations could apply to types of property not now subject to property tax.

The Attorney General's Opinion (Opinion No. 8216) gives numerous examples of problems that may arise in this area. For example, the Attorney General concluded that the timber severance tax would be considered a tax on property and would be covered by Measure 5. According to the Legislative Revenue Office, if timber is defined as property under the measure, some Oregon counties and school districts would experience substantial losses in timber severance taxes. Private timber in Western Oregon is taxed under the current system at a rate of 6.5 percent of market value, well above the 1.5 percent limit that Measure 5 allows. Counties and schools in Western Oregon will receive this year an estimated $46 million in severance taxes on timber cut from private land in Oregon. Under the measure, these tax revenues would probably be significantly reduced.

Taxes on other types of personal property would also be affected. For instance, motor vehicle and aircraft registration fees would come within the measure. At the current rate of $30 per passenger vehicle registration, the $10 per $1,000 of value limit of Measure 5 would apply to vehicles worth less than $3,000 to reduce their registration fees. The measure's limits would also apply to the minimum (although not usage) sewer and water charges property owners pay. The Attorney General has determined that the limits might also apply to other classifications of "taxes" levied on "property", including economic improvement district assessments, special assessment penalties, and seepage charges. Although your Committee was not able to determine the specific consequences of the impact of Measure 5 with respect to each of these tax limit applications, it appears that enforcement of Measure 5 in these areas could be complex and may have a significant impact on state and local revenues and tax collection costs.

4. Local Control

Opponents and proponents agree that the measure will reduce local control over school spending. In testimony before your Committee, however, neither side made this issue a major reason to vote for or against this measure. Historically the City Club has endorsed local control over schools under certain circumstances. Your Majority believes that standardization in some areas may enhance the quality of education in some parts of the state.

VIII. MAJORITY CONCLUSION

Your Committee was unanimous in expressing substantial sympathy for the frustration that prompted this measure. Measure 5 is drastic legislation, however. It would have an extreme and long-lasting impact on the state and its full impact cannot be foreseen. The measure's ramifications and implications must be thoroughly analyzed and the proper steps taken to prevent serious adverse consequences to some or all of the people of Oregon.

There would be significant changes in at least the following areas: the future quality and level of services provided by state and local government and the definition of property subject to taxation. The measure could also affect local control over school funding.

Oregon voters have not reached a consensus on how to resolve the long standing problems of school and non-school government funding. This lack of public consensus is the core problem. Although it expresses a commonly shared frustration among Oregon property owners, Measure 5 does little or nothing to achieve the balanced policy consensus essential for a responsible resolution of Oregon's tax dilemma.

IX. MAJORITY RECOMMENDATION

The majority of your Committee recommends a "NO" vote on Measure 5.

Respectfully submitted,

Janie Burcart
James A. Nelson
Gary Underwood Scharff
Phillip A. Sher
Michelle J. McKenna, Chair
FOR THE MAJORITY

X. MINORITY DISCUSSION

Your Minority agrees with much of the analysis of Ballot Measure 5 presented by the Majority. However, your Minority disagrees with the Majority's conclusions and recommendation. The Majority recommends against the proposed property tax limitation due to the risk of loss of necessary services. Your Minority places a higher priority on the need for property tax reform, and recommends support of the measure.

For the 1986-87 fiscal year, the most recent year available for comparisons, Oregon ranks fifth among the 50 states and the District of Columbia in the percent of personal income spent on property taxes. Oregon ranks eighth in dollars per capita spent on property taxes. (See Appendix C). According to witnesses, the average tax rate paid by Oregonians in 1979-80 was $21 per $1000 of valuation. That increased to a current average of $35 per $1000 of valuation, more than a 66% increase in just ten years. While this increase affects all Oregonians, it is particularly burdensome on retirees and others on fixed incomes.

Ballot Measure 5 arose out of the frustration of Oregonians to obtain property tax relief. Voters have defeated past property tax limitation attempts based in part on the promise that the legislature would address property tax reform. Despite attempts to address high property taxes, the legislature has failed to convince voters that the legislature's proposed solutions were adequate.

The fact that voters in local school districts are increasingly defeating school levies and the fact that 46 school districts are now in the so-called safety net is evidence of wide-spread voter dissatisfaction with property taxes and the way Oregon finances its schools.

Ballot Measure 5 is different from previous attempts to limit property taxes. A gradual five year reduction in property taxes for schools allows the legislature adequate time to devise ways to replace lost revenue for schools. Cities, counties and other local districts have sources of revenue besides the property tax.

Your Minority agrees with the Majority that Ballot Measure 5 will present funding problems for schools and state and local government. Services may be reduced or eliminated. However, Ballot Measure 5 also presents voters in this state the opportunity to address property tax and school finance reform. As Mark Zusman recently wrote in Willamette Week, "Even if the measure does create chaos, it is a necessary chaos that will eventually lead to support for an alternative source of revenue."

XI. MINORITY CONCLUSIONS

Oregonians pay too much in property taxes and reform of the property tax system is needed. The legislature has been unable to provide a long-term solution to the growth in property taxes that has been acceptable to the voters. Ballot Measure 5 is a more "benign" approach to tax reform than previous proposals.

XII. MINORITY RECOMMENDATION

Your Minority recommends a "yes" vote on Ballot Measure 5 on the November 6, 1990 general election ballot.

Respectfully submitted,

Nancy Glerum
FOR THE MINORITY

Approved by the Research Board on September 26, 1990 for transmittal to the Board of Governors. Approved by the Board of Governors on October 15, 1990 for publication and distribution to the membership, and for presentation and vote on November 2, 1990.

APPENDIX A

PERSONS INTERVIEWED

Stephen Meyer, Economist, State of Oregon Legislative Revenue Office

Don McIntire, Chief Petitioner, Measure 5

Thomas P. Dennehy, Chief Petitioner, Ballot Measure 5

Sandra J. Millius, Co-Chair, Human Services Coalition of Oregon

John Mullin, Co-Chair, Human Services Coalition of Oregon

Gary Carlson, Vice President, Associated Oregon Industries

John Marshall, Director of Legislative Services, Oregon School Boards Association

Mike Lindberg, Commissioner Portland City Council and Board Member, League of Oregon Cities

Delna Jones, State Representative (Republican), member, Joint Interim Legislative Committee on Revenue and School Finance

Jane Cease, State Senator (Democrat), Co-Chair, Joint Interim Legislative Committee on Revenue and School Finance

Jon Yunker, Administrator, Budget and Management Division, Executive Department

Fred R. Neal, Intergovernmental Relations Officer, Multnomah County

APPENDIX B

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APPENDIX C

STATE TAX RANKINGS
State and Local Taxes -- 1986-87

ALL TAXES *

Rank	Percent of Personal Income		Dollars per Capita	
1	Alaska	17.48%	Alaska	3,162
2	Wyoming	17.33%	Dist. of Col.	3,078
3	New York	16.25%	New York	2,773
4	Dist. of Col.	15.77%	Wyoming	2,293
5	Hawaii	13.39%	Connecticut	2,216
6	Wisconsin	12.91%	Massachusetts	2,105
7	Minnesota	12.80%	New Jersey	2,099
8	Maine	12.77%	Hawaii	1,955
9	Utah	12.49%	California	1,926
10	Vermont	12.38%	Minnesota	1,904
11	OREGON	12.21%	Maryland	1,904
12	Michigan	12.09%	Wisconsin	1,787
13	Arizona	12.07%	Michigan	1,776
14	Rhode Island	11.93%	Delaware	1,752
15	Massachusetts	11.93%	Rhode Island	1,720
16	Delaware	11.88%	Washington	1,697
17	California	11.68%	Illinois	1,650
18	New Mexico	11.61%	Vermont	1,631
19	West Virginia	11.51%	Nevada	1,622
20	Washington	11.50%	Maine	1,614
21	Maryland	11.47%	OREGON	1,612
22	Montana	11.44%	Colorado	1,602
23	Iowa	11.40%	Arizona	1,595
24	Connecticut	11.38%	Pennsylvania	1,554
25	New Jersey	11.35%	Virginia	1,548
26	North Carolina	11.10%	Iowa	1,530
27	South Carolina	11.07%	Ohio	1,509
28	Nevada	10.98%	Kansas	1,508
29	Pennsylvania	10.95%	Nebraska	1,460
30	Ohio	10.87%	New Hampshire	1,389
31	Louisiana	10.86%	Georgia	1,372
32	Kentucky	10.77%	Montana	1,366
33	Illinois	10.62%	Florida	1,365
34	Colorado	10.61%	North Carolina	1,363
35	Nebraska	10.60%	Utah	1,360
36	Idaho	10.45%	Texas	1,329
37	Georgia	10.40%	New Mexico	1,308
38	Kansas	10.36%	Indiana	1,304
39	Virginia	10.25%	North Dakota	1,276
40	Mississippi	10.19%	Missouri	1,247
41	North Dakota	10.12%	South Carolina	1,233
42	South Dakota	10.12%	West Virginia	1,231
43	Indiana	9.98%	Louisiana	1,227
44	Texas	9.92%	Oklahoma	1,218
45	Oklahoma	9.82%	Kentucky	1,210
46	Tennessee	9.74%	South Dakota	1,194
47	Alabama	9.67%	Idaho	1,178
48	Florida	9.60%	Tennessee	1,156
49	Arkansas	9.42%	Alabama	1,088
50	Missouri	9.11%	Arkansas	1,037
51	New Hampshire	8.99%	Mississippi	990
	U.S. Average	11.48%	U.S. Average	1,665

PERSONAL INCOME TAXES

Rank	Percent of Personal Income		Dollars per Capita	
1	New York	4.82%	New York	823
2	Maryland	4.20%	Dist. of Col.	816
3	Dist. of Col.	4.18%	Maryland	698
4	OREGON	4.07%	Massachusetts	680
5	Delaware	3.99%	Delaware	588
6	Massachusetts	3.85%	Minnesota	545
7	Minnesota	3.66%	OREGON	537
8	Hawaii	3.43%	California	502
9	Wisconsin	3.34%	Hawaii	501
10	North Carolina	3.26%	Wisconsin	463
11	Ohio	3.13%	Ohio	435
12	California	3.04%	Virginia	414
13	Utah	2.91%	North Carolina	400
14	Maine	2.82%	Michigan	388
15	Kentucky	2.79%	Rhode Island	364
16	Virginia	2.74%	Pennsylvania	363
17	South Carolina	2.64%	Maine	357
18	Michigan	2.64%	Georgia	345
19	Georgia	2.62%	New Jersey	339
20	Pennsylvania	2.56%	Iowa	337
21	Rhode Island	2.53%	Utah	316
22	Iowa	2.51%	Colorado	314
23	West Virginia	2.38%	Kentucky	313
24	Idaho	2.36%	Vermont	296
25	Vermont	2.24%	South Carolina	295
26	Indiana	2.19%	Indiana	287
27	Colorado	2.08%	Missouri	278
28	Arkansas	2.04%	Illinois	267
29	Alabama	2.03%	Idaho	266
30	Missouri	2.03%	Kansas	256
31	Montana	2.01%	West Virginia	254
32	New Jersey	1.83%	Montana	241
33	Kansas	1.76%	Alabama	229
34	Illinois	1.72%	Nebraska	226
35	Arizona	1.70%	Arizona	225
36	Oklahoma	1.67%	Arkansas	224
37	Nebraska	1.64%	Oklahoma	207
38	New Mexico	1.44%	New Mexico	162
39	Mississippi	1.24%	Connecticut	145
40	North Dakota	0.95%	Mississippi	120
41	Louisiana	0.87%	North Dakota	119
42	Connecticut	0.75%	Louisiana	98
43	Tennessee	0.12%	Tennessee	14
44	New Hampshire	0.05%	New Hampshire	8
45	Alaska	0.00%	Alaska	1
46	South Dakota	0.00%	South Dakota	0
47	Washington	0.00%	Florida	0
48	Texas	0.00%	Texas	0
49	Florida	0.00%	Washington	0
50	Nevada	0.00%	Nevada	0
51	Wyoming	0.00%	Wyoming	0
	U.S. Average	2.37%	U.S. Average	344

PROPERTY TAXES

Rank	Percent of Personal Income		Dollars per Capita	
1	Wyoming	8.37%	Alaska	1,187
2	Alaska	6.57%	Wyoming	1,108
3	New Hampshire	5.57%	Dist. of Col.	878
4	Montana	5.52%	New Hampshire	862
5	OREGON	5.42%	New Jersey	845
6	Vermont	4.88%	Connecticut	842
7	New York	4.69%	New York	799
8	Nebraska	4.62%	OREGON	715
9	New Jersey	4.57%	Michigan	669
10	Michigan	4.56%	Montana	659
11	Rhode Island	4.53%	Rhode Island	653
12	Dist. of Col.	4.50%	Vermont	643
13	Wisconsin	4.46%	Massachusetts	640
14	Connecticut	4.33%	Nebraska	636
15	Iowa	4.31%	Wisconsin	617
16	South Dakota	4.20%	Iowa	578
17	Maine	4.20%	Minnesota	572
18	Texas	4.10%	Colorado	572
19	Kansas	3.87%	Illinois	570
20	Minnesota	3.85%	Kansas	563
21	Colorado	3.79%	Texas	549
22	Illinois	3.66%	Maine	531
23	Massachusetts	3.63%	California	495
24	Utah	3.61%	South Dakota	495
25	Arizona	3.54%	Washington	483
26	Washington	3.27%	Arizona	468
27	North Dakota	3.21%	Maryland	464
28	Indiana	3.19%	Florida	453
29	Florida	3.18%	Virginia	430
30	California	3.00%	Indiana	417
31	Ohio	2.98%	Ohio	414
32	Idaho	2.97%	Pennsylvania	412
33	Pennsylvania	2.91%	North Dakota	404
34	Virginia	2.84%	Utah	393
35	Maryland	2.79%	Nevada	360
36	Georgia	2.63%	Georgia	347
37	South Carolina	2.58%	Idaho	334
38	Nevada	2.44%	Hawaii	320
39	Mississippi	2.41%	North Carolina	291
40	North Carolina	2.37%	South Carolina	288
41	Hawaii	2.19%	Missouri	271
42	Tennessee	2.09%	Tennessee	249
43	West Virginia	2.02%	Oklahoma	245
44	Missouri	1.98%	Delaware	241
45	Oklahoma	1.98%	Mississippi	235
46	Kentucky	1.82%	West Virginia	216
47	Arkansas	1.79%	Kentucky	205
48	Louisiana	1.75%	Louisiana	198
49	Delaware	1.63%	Arkansas	197
50	New Mexico	1.36%	New Mexico	153
51	Alabama	1.10%	Alabama	124
	U.S. Average	3.43%	U.S. Average	498

* The "All Taxes" category includes income taxes, property taxes, and sales taxes.

Source: Legislative Revenue Office, 5/10/90

APPENDIX D

NET FISCAL IMPACT ON CITY OF PORTLAND HOMEOWNERS

I. Current System	Year 1	Year 5
Home Assessed Value	70,000	70,000
Tax Rate (89-90 rate w/o bonded debt)	32.98	32.98
Tax Bill	2,309	2,309
II. If POPS Measure Passes		
Home Assessed Value	70,000	70,000
Tax Rate (88-89 rate)	25.00	15.00
Tax Bill	1,750	1,050
Property Tax Savings	559	1,259
III. Savings After Increased Income Taxes		
Property Tax Savings	559	1,259
Less State Income Tax Increase	(50)	(113)
Less Federal Income Tax Increase	(156)	(352)
Net Savings Total Taxes	352	793
IV. If 5% Sales Tax Enacted		
Net Savings Total Taxes	352	793
Less 5% Sales Tax Paid	(670)	(670)
Net Savings/Increase in Taxes	318 increase	123 savings

1. Assumes assesed value of property = $70,000

2. Sales tax calculated on 4 person family income of $35,000. Assumes 5% tax on goods only with food, medicine, exempt. Estimated sales tax total provided by Legislative Revenue Office.

3. State Income tax increase calculated on married filing jointly income of over $10,000 (9% rate)

4. Federal income tax increase calculated on married filing jointly income of $30,950 to $74,850 (28% rate).

5. Property taxes are deductible from Federal income taxes; sales taxes are not.

Source: City of Portland

Notes

Notes