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# Measure 2 and Oregon's Tax System

## What is Measure 2?

Measure 2 is a proposed constitutional amendment that would place limits on property taxes and restrict the authority of state and local governments to increase nonproperty taxes, license and user fees, and service charges. It would establish voting requirements under which voters could exceed some of these limits and restrictions. Measure 2 will appear on the ballot in the statewide general election on November 6, 1984.

## What are the main provisions of Measure 2?

1. Measure 2 would limit the property tax that can be levied against any property by limiting both the assessed value (AV) and the tax rate. (Property taxes = assessed value of one's property  $\times$  tax rate.) The maximum tax on any real property would be  $1\frac{1}{2}\%$  of assessed value (or \$15/\$1,000 AV) or the 1983 tax on the property, whichever is less.

The consolidated tax rate would be limited to \$15/\$1,000 AV, regardless of how many districts tax a given property. Taxes to repay bonds first authorized after the effective date would have to be included within this \$15 tax rate limit.

The assessed value of property for 1985 would be its 1981 assessed value plus a maximum growth of 2% per year since 1981, or its current assessed value, whichever is less. Assessed value thereafter could grow at a maximum rate of 2% per year. New construction would be assessed at its 1981 value

increased by a maximum of 2% per year.

2. Measure 2 would *allow* voters to approve property tax levies outside these limits. It would *require* a vote of the people for any state or local action that increases a tax rate or special assessment or imposes a new tax or special assessment *if* such an action would increase total government revenues.

In order to obtain voter approval under the requirements of Section 6 of Measure 2, a measure would have to:

- be voted on by at least 50% of the registered voters in the district;
- be approved by a majority of those voting;
- be voted on in an election held either the first Tuesday in May or the first Tuesday after the first Monday in November in any year; and
- specify the reason for the new or increased tax rate or special assessment, the amount involved, and how long it would be in effect.

3. Under Measure 2, the Legislature would be required to provide rent relief to renters (including renters of residential, commercial, agricultural and other real property). The amount of this relief is not specified, but it must be enough to realistically reimburse renters for some portion of taxes paid indirectly through their rent payments.

Continuation of the Homeowner and Renter Refund Program (HARRP) or other property tax relief programs is not required by Measure 2.

4. Measure 2 would limit any new state or local license fees, user fees, or service charges or any increases in

existing ones. Such fees and charges could not exceed the amount needed to cover the cost of providing the service or administering the regulation for which the fee or charge is levied.

5. Measure 2 would exempt Federal Social Security benefits from future state and local income taxation. Oregon does not currently tax such benefits.

6. Measure 2 would require, for 1985-86 only, that local property tax revenues be distributed to local taxing districts in the same proportions in which they were distributed in 1983-84.

In subsequent years, the Legislature would be required to develop a method of distribution that would both insure that (1) the combined tax rate on any property does not exceed the Measure 2 limits and (2) all taxpayers in any given district pay a uniform district tax rate.

If Measure 2 is approved by voters, the property tax and assessment limits and the 1985-86 distribution formula would take effect July 1, 1985. The election requirements, renter relief, fee and charge limits, and ban on taxing Social Security benefits would become effective on December 6, 1984.

*The chart on pages 2-4 of this circular compares selected aspects of Oregon's present tax system and the system that would exist under Measure 2. Tax payments, tax relief, and assessments are compared on pages 2-3; local government revenues and bonding capacity, on pages 3-4; and state government revenues and bonding capacity, on page 4.*

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OREGON STATE UNIVERSITY EXTENSION SERVICE

Measure 2 and Oregon's present tax system

Aspect of tax system affected	Present system	Measure 2
<b>Tax payments</b>		
1985 property tax payments	<p>Tax payments = (locally determined tax rate) × (value of property assessed at 1985 levels). The tax rate is limited in two ways: The <i>first</i> is a freeze on tax rates established by the Legislature in 1983. One-year special levies of a district are limited to an amount resulting in a tax rate no higher than the highest of the district's 1982-84 net tax rates. The <i>second</i> (and more fundamental) is the "6% limitation," described more fully on p. 3. By limiting the amount of property tax a government can levy, this constitutional provision implicitly limits the tax rate. Voters may vote to exceed both these limitations up to twice per year for the tax rate freeze and up to six times per year on levies outside the tax base that do not exceed the tax rate freeze. The Legislative Revenue Office has estimated that the 1985-86 statewide average tax rate would be \$21.86/\$1,000 assessed value if Measure 2 is not adopted.</p>	<p>Tax payments = the lesser of (a) [(a maximum tax rate of \$15/\$1,000 assessed value, plus amounts for existing bonds and any "voter override") × (assessed value of property under Measure 2 as described below)] or (b) the 1983 tax payment. Voters may approve property tax levies in excess of the \$15/\$1,000 maximum in two elections per year if at least 50% of registered voters vote on the measure and a majority of these approve and the other Section 6 election requirements are met. The Legislative Revenue Office has estimated that the 1985-86 statewide average tax rate would be \$15.42/\$1,000 assessed value if Measure 2 is adopted.</p>
Property tax relief	<p>Homeowners' property tax payments are reduced up to 30% (with a \$170 maximum) through partial payment by the state on most property tax levies. Residential renters (who do not pay property taxes directly) receive a refund of 4.7% of rent paid (with an \$85 maximum refund).</p>	<p>All renters of real property (residential, commercial, agricultural and other) would be insured some relief under this measure. The state 30% partial payment to homeowners and 4.7% refund to residential renters could be legislatively altered or eliminated.</p>
HARRP	<p>Through the Homeowner and Renter Refund Program (HARRP), homeowners with incomes of less than \$17,500 receive an additional refund of up to \$750. Residential renters with incomes of less than \$17,500 qualify for an additional refund of up to \$375. HARRP payments are made on a graduated scale with higher payments to those with lower incomes.</p>	<p>The HARRP program could be altered or eliminated by the Legislature.</p>
Other tax relief	<p>Oregon has two other relief programs. The first permits senior citizens to defer property tax payments. The second exempts from taxation a share of the property of certain veterans and their widows.</p>	
Income tax payments	<p>Property taxes are deductible from Federal and state income taxes. Federal Social Security benefits are not currently subject to state or local income taxation.</p>	<p>Because property tax payments would be lower, Federal and state income tax payments would be higher under Measure 2 than under the present system for those taxpayers itemizing deductions. Federal Social Security benefits would be exempt from future state and local income taxation.</p>
<b>Assessments</b>		
Basis for assessment	<p>Real property is assessed at a ratio of true cash value. Statewide assessed value of existing real property is limited to an increase of 5% per year. The assessed value of each individual property is multiplied by a ratio set to keep assessments within this 5% limit. The 1984 ratio is 96% of true cash value.</p>	<p>The assessed value of property for 1985 would be its 1981 assessed value plus a maximum growth of 2% per year since 1981, or its current assessed value, whichever is less. Assessed value thereafter could grow at a maximum rate of 2% per year. New construction would be assessed at its 1981 value increased by a maximum of 2% per year.</p>

Measure 2 and Oregon's present tax system (continued)

Aspect of tax system affected	Present system	Measure 2
<b>Assessments (contd.)</b>		
Property subject to special assessment	Assessments for certain farm lands and timber lands are not based on market value but on their use value.	Property assessed for special purposes in 1981 would continue to be assessed at values shown on the 1981 tax statement plus up to 2% annual adjustment, even if the special use changes. Property that qualifies for special assessment after 1981 would be valued at the lesser of: (a) its 1981 assessed value plus up to 2% annual adjustment; or (b) its special-use value in the particular tax year.
<b>Local government</b>		
Tax revenues	For local governments with tax bases, the tax levy within the tax base may increase 6% each year without voter approval. Tax levies outside the 6% limitation must be approved by the voters. For local governments without tax bases, all property tax levies must be approved by voters. Proposals for 1-year operating levies outside the tax base, if they would result in a tax rate higher than the highest of the 1982-84 net tax rates, can generally be submitted to voters only two times per year. Voters have the opportunity to petition for a vote on any new tax proposed or enacted by local governments. In practice, governments often refer such measures to voters.	In addition to limits in the present system (the 6% limitation, the tax rate freeze, and the assessment limit), new restrictions would be placed on local taxing power: Any proposal for a new tax, or special assessment or increased tax rate that would increase total government revenues over those of the previous year would be subject to the Section 6 election requirements outlined on page 1. Proposals for new or increased nonproperty taxes or special assessments that did not increase government revenues but merely replaced lost revenues would not be subject to these Section 6 election requirements. After the first year, Measure 2 does not specify how taxes would be apportioned among local taxing units. The Oregon Legislature would determine the allocation, either by setting maximum tax rates for each class of taxing unit or by some other mechanism. It has been estimated by the Legislative Revenue Office that total property tax revenues would be reduced by 36% in 1985-86 if Measure 2 passes.
Fees and charges	Fees and charges are not presently restricted by law to the cost of providing services or administering regulations.	In setting new license fees, user fees, and service charges or in increasing existing ones, governments could not set the fees or charges to exceed the amount needed to cover the cost of providing the service or administering the regulation for which the fee or charge is levied.
Bonds	Voters must approve most local bond measures. Local governments can guarantee repayment of bonds through their power to levy taxes on property. Bonds so guaranteed generally carry a lower interest rate than bonds without this guarantee. The bonding capacity of local governments is generally limited to a percentage of true cash value, although the law provides several exceptions for cities.	Under the \$15 tax rate limit and assessed value limit, local governments could not make the same guarantee for repayment of bonded indebtedness authorized after the passage of the measure. Voter approval under the Section 6 election requirements would be required for authority to levy property taxes to guarantee most new bonds, and for authority to even make the assessments for Bancroft-bond-financed local improvements. The \$15 tax rate limit and assessment limit would, according to the Attorney General's opinion, "severely erode... local government's ability to back issuance of bonds with ad valorem tax revenue and could make marketing of new bonds more

Measure 2 and Oregon's present tax system (continued)

Aspect of tax system affected	Present system	Measure 2
<b>Local government (contd.)</b>		
Bonds (contd.)		difficult and expensive." The ability to pay off urban renewal and redevelopment bonds authorized after the passage of the measure would also be restricted. Taxes to repay existing bonds would not be affected.
<b>State government</b>		
Tax revenues	Generally, a majority vote of the Oregon Legislature is needed to enact any law increasing existing state taxes or creating any new state tax. As with many local governments, voters must be given an opportunity to petition for a vote on any new tax proposal.	Any proposal for a new tax, or special assessment, or increased tax rate that would increase total government revenues over those of the previous year would be subject to the Section 6 election requirements outlined on page 1. Proposals for new or increased nonproperty taxes or special assessments that did not increase government revenues but merely replaced lost revenues would not be subject to these Section 6 election requirements.
Fees and charges	Fees and charges are not presently restricted by law to the cost of providing services or administering regulations.	In setting new license fees, user fees, and service charges, or in increasing existing ones, governments could not set the fees or charges to exceed the amount needed to cover the cost of providing the service or administering the regulation for which the fee or charge is levied.
Bonds	The state can guarantee the repayment of certain bonds through its power to levy property taxes. The capacity of the state to issue bonds is generally limited to a percent of true cash value.	Most state bonds, including those for Veterans Farm and Home Loans, would be exempt from the property tax limit because they are already authorized.

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