

A New Tax Base For Your Local Government?

B.A. Weber

In recent years, many local governments in Oregon have sought voter approval for new tax bases. One reason is a State law requiring local governments that have levied taxes outside their tax bases in recent years to submit proposals for new tax bases to voters.

Local governments (also called *taxing districts*) include counties, cities, school districts, community college districts, fire districts, road districts, and other special districts.

This publication (1) explains what a tax base is and how it is established, and (2) discusses several issues often raised by voters when evaluating proposals for new tax bases.

What is a tax base?

In many States, the term *tax base* refers to the assessed value of a taxing district. This is not the case in Oregon.

In Oregon, the term *tax base* refers to the dollar amount of property taxes a government is authorized to levy under Article XI, Section 11, of the Oregon Constitution (the provision establishing the "6% limitation"). This amount, if fully levied, may increase up to 6% a year without further voter approval.

The amount of the tax base for any given year is either (1) the highest of the last three levies within the tax base, plus 6%, or (2) an amount approved by voters as a new tax base. For some local governments, the basis for computing the current tax base is the district's 1916 levy (the levy in effect when voters approved the "6% limitation" amendment).

What's the difference between a tax base and a temporary levy?

Tax bases give permanent authority to levy an amount that can increase 6% a year. Temporary levies (also referred to as *levies outside the tax base*, *levies outside the 6% limitation*, and *excess levies*) give authority to levy a specified amount for a period of 1 to 3 years.

Local governments that do not have tax bases, or that decide they cannot provide adequate services with revenues available within their tax base, may seek voter approval for a new tax base or for temporary operating levies outside the tax base.

In fiscal year 1986-87, for example, 24 of the 36 counties, 85 of the 241 cities, and 118 of the 305 school districts in Oregon had voter approval for temporary operating levies. These levies represented 29% of the total county property tax

levies, 30% of the city levies, and 25% of the school district levies. (Levies used to retire the principal and interest on voter-approved bonds are not included in these figures.)

Does the "safety net" give school districts a new tax base?

No. A 1987 amendment to the Oregon Constitution provides school districts with a so-called "safety net." This allows districts with inadequate tax bases to levy an amount equal to the previous year's total operating levy (even if such a levy is outside their tax base) if voters do not approve by September 30 a levy that provides enough revenue to operate schools for the full year. This provides a floor for school tax levies by allowing districts to permanently levy outside their tax base "temporary levies" previously approved by voters. In 1987-88, 38 school districts used the "safety net."

The safety net levy is *not* a new tax base. Unlike a tax base, the amount allowed under the safety net does not automatically increase from one year to the next. Districts that use the safety net, furthermore, are required to abide by certain conditions.

Does a tax base increase with increases in assessed value or population?

No. Increases in assessed value (except those caused by annexation) do not affect the tax base. Similarly, increases in a district's population have no effect on the tax base.

Does every local government have a tax base?

No. Although all counties and nearly all of Oregon's cities have tax bases, some school districts and other special districts do not—for example, 32 of Oregon's 304 school districts have no tax base. The first tax levy of a newly formed taxing district does not automatically become that district's tax base. A new district can establish its initial tax base only when voters approve a tax base measure.

How do local governments get new tax bases?

They must submit to voters a ballot measure specifying in dollars and cents the amount of the tax base in effect and the amount of the proposed new tax base. A majority of voters

Bruce A. Weber, Extension economist, Oregon State University. Steve Meyer, Oregon Legislative Revenue Office, provided consultation and assistance.



voting on the proposed new tax base must approve the measure.

For school districts, tax base elections are permitted in May each year. For other local governments, tax base elections are permitted only at primary or general elections (May and November of even-numbered years). Tax bases approved in May 1988 would be used in determining tax levies for the fiscal year starting July 1, 1988. Tax bases approved in November 1988 apply to tax levies in the fiscal year beginning July 1, 1989.

How would a new tax base affect my tax bill?

Approval of a new tax base would increase your property tax bill if the tax base is larger than the total tax that would eventually be levied without the tax base (any temporary levies later approved plus any existing tax base). Approval of a new tax base would not increase your tax bill if the new tax base is the same size as (or smaller than) the total levy that would be approved without the new tax base.

How would a new tax base affect services?

In the short run, this depends on whether the total tax levy would be lower with or without a new tax base (the point made previously) and on:

- how the government would finance services with or without a new tax base (for example, whether the district imposes new or increased user charges for certain services such as library, water, sewer, or recreation);
- how efficiently the government would provide services (whether the district can provide comparable services at lower cost) with or without a new tax base; and
- the types and levels of services the government would provide with or without a new tax base.

If there are few opportunities to increase efficiency in providing services (and few or no opportunities to increase charges) and if rejecting a tax base results in a lower total levy, the district must respond by providing fewer or lower-quality services than it would have with a new tax base. The effect of rejecting a new tax base on services would depend on which services the district decided to reduce or eliminate.

In the longer run, the ability of a local government to provide services and maintain quality staff also depends to some extent on its ability to make long-term financial plans and commitments. Approval of a new tax base enhances the ability to do this and thereby affects both the types and quality of service provided by a local government over the long run.

What is local control?

Local control is the ability of citizens to influence the local public decisions affecting their lives. In the present context, it means having the mechanisms to influence local government taxes and services.

Oregon law provides at least three mechanisms: (1) local election (and recall) of local government officials responsible for adopting budgets and levying taxes; (2) a budget process that requires citizen representation on local budget committees and public hearings before the budget is adopted; and (3) the requirement that local governments obtain voter approval for

tax levies outside the tax base (or "safety net" for schools) and for new tax bases.

Different people emphasize different aspects of local control:

- Some emphasize the ability of voters to tax themselves for locally desired services.
- Others emphasize the ability of locally elected officials to determine the scope and level of local government services without interference by State and Federal governments.
- For others, the important aspect is the ability of voters to deny local governments the chance to substantially increase the level of property taxes.
- Still others emphasize the ability of voters to hold local governments accountable for tax dollars by having the government justify proposed spending before receiving approval of tax levies.

How would a new tax base affect local control?

Approval of a new tax base would affect these four aspects of local control differently. By approving a new tax base, voters determine the size of a government's levy for the current year and future years. Approval of a new tax base strengthens the ability of locally elected officials to make financial plans and commitments affecting the scope and level of services.

A new tax base would not change voters' ability to reject large future property tax increases, because districts would have to seek voter approval for levies increasing more than 6% a year over the new base. Where districts obtain voter approval for levies outside their tax bases on a regular basis, a new tax base would reduce the leverage voters currently have in obtaining regular justification of proposed budgets.

Approval of a new tax base would not affect voters' ability to influence taxes and services through electing local officials or through participating in budget deliberations and public hearings on local budgets.

What are important factors to consider in evaluating new tax base proposals?

In deciding whether to vote for or against a proposed new tax base, consider whether in the short and long run it would: (1) provide the types and levels of service you desire; (2) impose an acceptable level of property taxes for these services; and (3) strengthen or weaken the aspects of local control you consider most important.

Extension Service, Oregon State University, Corvallis, O.E. Smith, director. This publication was produced and distributed in furtherance of the Acts of Congress of May 8 and June 30, 1914. Extension work is a cooperative program of Oregon State University, the U.S. Department of Agriculture, and Oregon counties.

Oregon State University Extension Service offers educational programs, activities, and materials—without regard to race, color, national origin, sex, or disability—as required by Title VI of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, and Section 504 of the Rehabilita-
