Ballot Measure 11 and Oregon’s Tax System

Ballot Measure 11

Q. What is Ballot Measure 11?
A. Measure 11 is a proposed constitutional amendment that will be on the ballot in the November 7 statewide general election. Submitted by the Oregon legislature, Measure 11 provides property tax relief to homeowners and renters; places limits on these State tax relief payments; and restricts the State government’s spending and taxing powers.

Q. What are the main provisions of Ballot Measure 11?
A. Measure 11:
- Requires the State, beginning July 1, 1979, to pay one-half of the property taxes on each “owner-occupied principal residence,” and to give equivalent relief to renters. The State must use personal income taxes for these payments. The Measure specifies that in the first year, State payments for any home may not exceed $1,500. This limit could be increased by the State legislature in future years.
- Limits the increase in State spending to the growth rate of personal income in Oregon. Specifically, the Measure limits State “operating expenses for general governmental purposes.” As defined by the legislature, this limit would apply to nearly all the General Fund.

The State budgets and spends money on a 2-year cycle called a biennium. The 1979-1981 biennium begins July 1, 1979 and ends June 30, 1981. Spending in this biennium would be limited to 95 percent of the spending in the previous biennium, adjusted by the rate of growth of personal income in Oregon during the two preceding calendar years. In succeeding bienniums, spending would be limited to the total amount spent in the immediately preceding biennium, adjusted by the change in personal income in the previous 2 calendar years. The spending limit does not apply to property tax relief payments provided under this Measure, debt payments, and expenditures reimbursed by local governments.
- Requires a two-thirds vote of the Oregon legislature to enact a law increasing State revenues from a “tax category” (such as the income tax, gasoline tax, cigarette tax) by more than 5 percent from the previous biennium. A simple majority vote of the legislature is required if the tax measure is referred to the voters.
- Provides income tax refunds when state revenues for general operating purposes exceed appropriations for such purposes by 2 percent or more at the end of the biennium. In that event, the entire amount of the surplus would be refunded to Oregon taxpayers in proportion to their personal income tax payments.
- Provides in Section 5 that the State shall not give any property tax relief to homeowners and renters for that part of a local government’s tax levy that exceeds a stated limit on the growth rate of expenditures funded by property taxes. This limit is equal to the yearly growth rate of population served by the local government, adjusted by a price change index. This limit, referred to hereafter as the Section 5 limit, may not be less than that allowed under Oregon’s present 6 percent limitation. Voters may approve tax levies that are more than the new limit, but in that event, the State would not pay any share of the property taxes that are above this limit. And any tax levy above this limit shall not be included in determining the limit for the next year.

The “Section 5 limit” on increases in expenditures funded by property taxes would not apply to expenditures for contractual obligations approved by voters before December 31, 1978 or to expenditures for capital construction or bonded indebtedness. These tax-financed expenditures would be eligible for state relief. However, serial levies for capital construction and levies to pay off bonded indebtedness approved by voters after December 31, 1978 would not be eligible for State relief.
- Freezes the assessed value of real property in Oregon at the January 1, 1979 assessment level until December 31, 1980. “New property, newly constructed property, or additions to existing property” added to the tax rolls between January 1, 1979 and December 31, 1980 shall be assessed at the January 1, 1979 assessment level. The Measure directs the 1979 legislature to study and change, as necessary, existing assessment laws and practices.

Q. Could Ballot Measure 6 and Ballot Measure 11 both go into effect?
A. No. Ballot Measure 11 was proposed by the Oregon Legislature as an alternative to Ballot Measure 6 (Measure 6 is explained in Extension Circular 959). It is possible that both measures could pass. According to a provision in Measure 11, if both measures pass in the November 7 election, the measure receiving the most affirmative votes will become part of the Constitution.

It is possible that neither measure would pass, in which case Oregon’s present tax system would be retained.

Q. How would Ballot Measure 11 affect property taxes paid by homeowners and renters?
A. In most cases, homeowners would pay only one-half of the property taxes levied on their principal residence.
The State would pay the other half, up to a maximum of $1,500. Renters would receive "equivalent" relief from the State under the measure. Measure 11 does not specify a formula for determining renter refunds. If the State were to use the existing Homeowners and Renters Relief Program (HARRP) method of determining the share of rent that goes to property taxes, renters would receive refunds of approximately 8½ percent of their rent payments.

The State, however, would not provide relief on the tax levies that exceed the Section 5 limit or levies for capital construction and debt service approved by voters after December 31, 1978.

Q. How would Measure 11 affect property taxes paid by the owners of businesses, farms, or industrial and recreational properties?

A. Under Measure 11, the State would not pay any share of the taxes levied on these properties except for that portion of the property serving as a principal residence. Unless the legislature changed the laws, the farm and forest land properties now assessed at less than 100 percent of true cash value would retain their special assessment status.

Q. How would Ballot Measure 11 affect assessment practices and the apportionment of taxes among property owners?

A. With certain exceptions, property in Oregon is now assessed at its true cash value, the price a willing buyer would pay a willing seller. Property taxes are apportioned among property owners on the basis of this assessed value, which reflects current market values. Exceptions include Federal and state land and property of religious and fraternal organizations that are tax exempt, and certain farm and timber lands now assessed at less than 100 percent of true cash value.

Under Measure 11, taxes would continue to be apportioned among property owners on the basis of the current market value of property, except during 1980 when it would be apportioned on the basis of 1979 market values.

Measures 11 directs the 1979 legislature to revise "as necessary" the existing assessment laws and practices.

Q. How would Ballot Measure 11 affect State and Federal income taxes?

A. Because property taxes are deductible from Federal and State income taxes, those Oregon homeowners who itemize deductions would pay more in State and Federal taxes under Measure 11 than they do currently. These increased tax payments would not, however, offset the reduction in property taxes under Measure 11.

Oregon taxpayers would receive State refunds in proportion to their State personal income tax payments when State revenues exceed appropriations by 2 percent or more. The full amount of the surplus would be refunded.

Q. How would Measure 11 affect local property taxes and local government spending?

A. Under current law, local governments are limited in the amount of property taxes they can levy (and thus to a certain extent their spending is limited) by the 6 percent limitation. This constitutional limitation permits levies within voter-approved tax bases to increase at the rate of 6 percent per year without voter approval. Tax levies outside this limit require voter approval. For governments without tax bases, voter approval is required for all tax levies.

Section 5 of Measure 11 would limit increases in "local government expenditures for governmental operating purposes derived from . . . property tax revenues" to the growth rate of local government population adjusted for price changes. These expenditures are defined as excluding contractual obligations approved before December 31, 1978, and capital construction (such as new buildings) and bonded indebtedness. This limit could not be less than the 6 percent limit and voters could approve spending funded by property taxes outside this new limit. No homeowners and renters relief, however, would be paid for the property taxes approved outside this limit. Levies for capital construction and bonded indebtedness approved by voters after December 31, 1978 would not qualify for state payments.

Measure 11 would not impose an overall limit on local government spending, but would put a limit on property tax levies for which the State would provide relief.

If a local government submitted an operating levy beyond the 6 percent limit, but within the Section 5 limit, the ballot measure would indicate that the state would pay 50 percent of the tax on each owner-occupied residence up to $1,500 and would provide comparable tax relief to renters. If the proposed levy were beyond the 6 percent limit and the Section 5 limit, voters would vote on two local ballot measures, one for the portion of the levy that would qualify for tax relief and another for the portion that would not qualify. The latter measure would indicate that the state would provide no tax relief on this portion of the levy.

For example, suppose that a local government's tax base in fiscal year 1978-1979 were $100 and that this local government's population, adjusted for price changes, increased 10 percent between July 1, 1978 and July 1, 1979. In fiscal year 1979-1980, then, the 6 percent limit would be $106 and the Section 5 limit would be $110. If the local government submitted an operating levy of $105 in 1979-1980, then voter approval would not be required and the State would share payment of all property taxes levied on owner-occupied residences. Comparable relief would be provided to renters.

If the local government submitted a levy of $110, then citizens would vote on the $4 above the $106 limit. Only one ballot measure would be required. If that levy passed, the State would pay relief on the entire $110 levy.

If the local government submitted a levy of $120, then two ballot measures would be required: one for the $110 for which the State would pay relief and the other for the $10 for which the State would not pay relief.

The effect of Measure 11 on local spending and property taxes would depend primarily on the response of local government's and voters to the incentives of the Section 5 limit. Measure 11 might induce local governments to levy taxes within the Section 5 limit, since taxpayers would have to pay the entire tax on any levy above this limit. Or it might induce local governments to propose tax levies at the limit, to take full advantage of the State tax relief.

Measure 11 might also induce local governments to increase the limit by proposing a new tax base rather than ask for a levy above the established tax base. Using the previous example, if voters approved a tax
base of $120, the State would reimburse homeowners 50 percent of the tax on the entire $120 levy rather than 50 percent of the tax on $110 levy.

Although the effect of Measure 11 on local government spending and taxes is not known, the Measure probably would not lead to a major reduction in local services. And it would have no direct effect on the ability of local governments to sell bonds.

Q. How would Ballot Measure 11 affect State revenues?
A. Under Measure 11, the State legislature could not enact any tax measure increasing revenues from a tax category by 5 percent or more from the previous biennium without a two-thirds vote of approval. A simple majority would be required if the tax measure were referred to the voters.

With Measure 11, as under the present system, the total revenue from income taxes and other State taxes would increase as personal income and population increase, without additional legislation.

If Measure 11 is approved, when State general operating revenues exceed appropriations by 2 percent or more, none of the surplus would carryover into the next biennium, as would occur under the present tax system.

Q. How would Ballot Measure 11 affect State spending?
A. Measure 11 would substantially increase the commitment of State government to return State personal income tax revenues to homeowners and renters as property tax relief. Such relief would be mandated by the constitution and would take precedence over almost any other budget item. The Legislative Revenue Office, assuming that HARRP would be retained and that current levels of state aid to local government would be continued, estimated that Measure 11 tax relief would cost State government about $553 million (about 18 percent of the projected general fund budget) in the 1979-1981 biennium.

Measure 11 would limit the biennial increase in State general fund spending to the growth rate of personal income in Oregon in the previous 2 years. The base for the 1979-1981 biennium would be 95 percent of the 1977-1979 biennium. Homeowner and renter relief mandated by Measure 11, debt service, and reimbursements by local governments, would be exempt from this spending limit.

This state spending limit—coupled with the mandatory tax relief, the State surplus refund, and the State taxing restriction—probably would reduce spending for new programs and could reduce funding for existing State programs.

Oregon's Present Tax System

Q. How are property taxes determined in Oregon?
A. Each year, local governments draw up a budget, specifying anticipated expenditures and expected revenues from sources other than property tax, such as fees for services and Federal and state funds.

When expenditures exceed such revenues, local governments balance their budgets by levying a tax on properties within their jurisdictions, by reducing their expenditures, or both.

Local governments in Oregon are limited in the amount of property tax money they can levy without voter approval by the state's 6 percent limitation. This constitutional provision limits the amount to a government's tax base plus 6 percent. A government's tax base is the highest amount it levied without voter approval in one of the three previous years in which it levied a property tax or an amount approved by voters as a new tax base. If the government has no tax base (many governments do not), the entire levy must be approved by voters each year.

Once a levy is approved by voters or falls within the 6 percent limit, a property tax rate for that government is determined. The county assessor's office has already placed a value on all property within the government's boundaries. The tax rate for the government is equal to the levy divided by the total assessed value of property. This tax rate is expressed in dollars per $1,000 of assessed value.

Since a given parcel of property is generally located in the boundaries of more than one local government, the total tax rate applied to a piece of property is the sum of the tax rates of the individual units. The tax levied against any given property is equal to the combined tax rate times the property's assessed value.

Q. Who gets the property taxes in Oregon?
A. In 1975-76, 44 percent of the revenues for Oregon local governments came from property taxes.

For school districts, property taxes provided 56 percent of the total revenue; for cities, 30 percent; counties, 23 percent; and special districts, 32 percent.

No property taxes are used to support the state or Federal government.

Q. What is the basis for determining assessed values in Oregon?
A. With certain exceptions, property in Oregon must be assessed at 100 percent of true cash value. Asses-
sors must physically reappraise each parcel of property once every 6 years. For the other years, the assessor trends property upward or downward to reflect the value of similar property recently sold. The Oregon Department of Revenue monitors this assessment process to insure conformity to the law.

Q. How does Oregon’s property tax system apportion taxes among property owners?
A. Oregon law requires that all property in a given taxing unit be taxed at the same tax rate and that property be assessed (with some exceptions including certain farm and timber land) at true cash value. These requirements mean that the property taxes levied by local governments in Oregon are shared among the owners of property in those jurisdictions in direct proportion to the appraised market value of their holdings. Owners of highly valued property pay more property taxes to their local governments than owners of lesser valued property.

Q. What share of my tax dollar goes to local government in property taxes?

A. In fiscal year 1974-75, 16 percent of all tax payments in Oregon were property tax payments to local governments.

Q. What direct control do voters have over property taxes in Oregon?
A. Under the present constitution and laws, voters can control tax increases in Oregon in three ways:

(1) Voter approval is required before a government can levy an amount outside the 6 percent limitation.

(2) Voters must be given opportunity to petition for a vote on any new tax proposed by local governments. In practice, governments often refer such measures to voters.

(3) Voters must authorize bond measures, with some exceptions.

Citizens, of course, can participate in the local government budgeting process, and help determine the tax levy.

Q. What kinds of tax-relief programs for Oregon homeowners or renters now exist?
A. The major tax-relief program is the Homeowners and Renters Relief Program (HARRP): Homeowners with annual incomes of less than $16,000 can receive up to $644 in property tax refunds. Renters with less than $16,000 income can obtain a refund of up to $328.

The specific amount refunded by the state depends on an eligible recipient’s income level and total property tax or rent payment. Research by the Legislative Revenue Office suggests that this system of refund payments has significantly equalized the percent of income paid for property taxes by families and individuals with different income levels.

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 widows of veterans.

Q. What does the State general fund pay for?
A. For the 1977-1979 biennium, 52 percent of the state general fund is appropriated for the operations of State agencies, 39 percent is appropriated as aid to local governments, and 9 percent is appropriated for homeowner and renter relief under the HARRP program.

Q. Where does the State general fund get its money?
A. Personal income taxes are the major source of revenue for the state general fund, about 70 percent in 1977-1979. Corporate excise and income taxes provide another 13 percent. Other taxes (such as inheritance and gift taxes and the cigarette tax) provide 8 percent and non-tax revenue (such as liquor sales income, charges and fees, and Federal revenue sharing) provide the remaining 9 percent of the estimated 1977-1979 general fund revenues.

Further Information
The Oregon State University Extension Service has two publications that describe Oregon’s property tax system: Extension Circular 906, “Oregon’s 6 Percent Limitation,” and Extension Circular 907, “How Your Property Tax Bill is Computed.” Single copies are available free at your local Extension Office or from the Bulletin Mailing Service, Oregon State University, Corvallis OR 97331.

The Oregon Department of Revenue also has a number of publications on Oregon’s system of taxation. A list and copies of the publications are available by writing to Publications, Oregon Department of Revenue, State Office Building, Salem OR 97310.

Prepared by Bruce Weber, Extension economist, and John Savage, research assistant, Oregon State University. Partial support was provided under Title V of the Rural Development Act of 1972. The authors acknowledge the assistance of many persons including: Terry Drake, Stata Legislative Revenue Office; Ira Jones, assistant attorney general; and Grant Blanch, David Holst, and William Rompa, of Oregon State University.

EXTENSION Community Development PROJECT
OREGON STATE UNIVERSITY