

Let's Think About . . .

Local Government Budgets and Property Taxes

Why think about budgets?

Most Oregonians are concerned about property taxes. Property taxes and budgets for local governments are closely related.

In fact, budgets and budget-making are the key parts of the process through which revenue for our local governments is generated and property taxes are levied. There would be little or no property tax if the budget-making process were not carried out in counties, cities, school districts, and other local districts each year. Likewise, with no budget-making, under our present system of financing local governments there would be little money for schools and many other local government services in Oregon.

What are local governments?

Local governments in Oregon—legally or technically called municipal corporations—include counties, cities, school districts, and other special districts providing public facilities and services. By census definitions and count, there were 1,456 local governments in the state in 1967. Most have the authority to levy property taxes if budgeting and other procedures prescribed by state law are followed.

What are budgets?

Budgets are financial plans. They are made by some families, many businesses, most corporations,

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and all public bodies. They are usually made once a year, sometimes more often, and in some cases every two years (as is done for Oregon's state government).

In this leaflet, we shall be thinking about budgets for local governments. These budgets are the ones directly related to property taxes. No property tax is levied by state or federal government in Oregon. Also, state and federal budget-making procedures are quite different.

Why make budgets?

Budget-making provides a systematic, although not simple or perfect, procedure for judging revenue needs and revenue sources in the year ahead. It provides a system for summarizing recent financial experience, for obtaining public views on local government programs and costs, for recording resources and requirements, and for computing the property tax levy.

The budget places this information on public record to guide public officials and employees. It also informs interested individuals of the intent and limits identified by the financial planners during and following the budget-making period. This, in turn, aims to promote efficiency and economy in the use of public funds.

Who are the budget-makers?

Budget-makers are financial planners. Officially, they are called budget committees. They are the people we elect to be members of the governing body of each local government unit, plus

an equal number of persons appointed by these elected officials. (There are no appointed members for Multnomah County units with more than 100,000 people.) The elected officials for the county are the commissioners; for the cities, the mayor and councilmen; and for local districts, the governing boards. The appointed members must be property-holders residing within the area serviced by the unit of government being budgeted.

In other words, budget-makers are our neighbors and, hopefully, our friends doing things for us and not to us—things to help, not hurt, at least the majority of us.

Who helps the budget-makers?

In carrying out its responsibilities, each budget committee is assisted by a budget officer appointed by the elected governing board. The budget officer initiates the budget-building process each year by developing a proposed budget and presenting it with a budget message to the budget committee. Department heads, supervisors, and others supply information to the budget officer and budget committee. Several state offices also assist and advise as requested or required.

What do the budget-makers consider?

Budget-makers for each unit of government review a great deal of information and consider a wide variety of questions. The questions might be grouped somewhat as follows:

- ✓ What do the people want?
- ✓ What do they need?
- ✓ How much will it cost?
- ✓ How important (valuable) is one item (service) compared to another?
- ✓ How much will the state or somebody else pay?
- ✓ How much can we afford?
- ✓ Who will benefit and how much?
- ✓ How much are local people willing to pay?
- ✓ What does the law require?
- ✓ What does the law permit?
- ✓ What changes should be made in the system of financing local government?

Sound acceptable answers to these questions require information, thought, and judgment.

What are the limits on budget-makers?

There are many limits or guidelines on what budget-makers can and cannot do.

Procedural limits relate to responsibility for preparing the preliminary budget, detail shown, public hearings, referral of recommended excess or special levies, and final adoption of the budget.

Financial limits, or limits on levies, are both constitutional and statutory. These restrict the authority of the budget committee to levy taxes.

The state constitution says that no local unit of government in any year may, unless otherwise authorized directly by voters, levy an amount that is more than 6 percent greater than the largest of the last three levies made within the limit, unless an "excess" levy is approved by voters.

If the budget committee believes that more than the 6 percent increase is needed, it may recommend an "excess" levy. If voters reject the recommendation in a budget election, like or adjusted excess levies may be resubmitted at intervals as long as the committee deems this advisable. In some years, "excess" levies for some schools have been submitted five times.

Some states have a legal limit on the number of times a local budget or levy may be submitted to voters. Such a limit was part of the tax package submitted to Oregon voters in the June 1969 referendum. The November 1970 initiative proposal to modernize school revenue bases also included a limit of two tax elections in any year. Both of these proposals were rejected, but voters have never had an opportunity to vote on such a limit as a separate or single issue.

Can a budget committee create a new tax base?

No. The only way a new tax base, or levy limit, may be enacted locally is by a favorable vote in a primary or general election. A new base may be proposed locally by the elected officials of a unit of government or by a petition signed by local taxpayers. Or, new bases may be established statewide below the constitutional limit by legislative action. Higher limits may be proposed by initiative petition or by legislative act, but they must be

approved by the voters in a primary or general election.

What are the steps in budget-making and tax levying?

Briefly, the principal steps in this process are listed below.

Principal Steps in Budget-Making and Tax Levying

| Step | What | When |
|--|---|--|
| 1 | Budget information submitted to budget officer from: Department heads Supervisors Others | Usually February |
| 2 | Public notice of budget meeting | One publication not less than eight days before meeting |
| 3 | Presentation of preliminary budget to: Committee Public | Usually February |
| 4 | Review, revision, and approval of proposed budget by budget committee | Within 10 days after step 3 |
| 5 | First publication of summary and hearing notice | Usually March (not less than 15 nor more than 25 days before budget hearing) |
| 6 | Second publication of summary and hearing notice | Not less than eight days nor more than 14 days before budget hearing |
| (Instead of steps 5 and 6, levying body may send notice and summary to legal voters in district by regular mail) | | |
| 7 | Budget hearing | Usually March or April |
| 8 | Revision of budget and determination of levy by levying board | Usually March or April |
| 8a | If levy exceeds 6 percent limitation, board must post and publish notices and hold election on excess | Usually April or May (First notice not less than 15 days nor more than 25 days before election. Second notice not less than eight nor more than 14 days before election) |
| 9 | Levying board makes appropriation and declares tax levy | By July 15, if within limit or not rejected by voters |
| 10 | Tax levy certified to assessor | By July 15 (may be extended by assessor) |

What are the principal parts of a budget?

Budgets for local governments consist of three basic parts:

1. A summary section
2. Recent and anticipated requirements
3. Recent and anticipated non-property tax resources.

How is the property tax determined?

Steps involved in proceeding from a budget to the individual taxpayer's bill are essentially as follows:

- Budgeted requirements
minus
- Non-property tax resources
equals
- Property taxes needed to balance budget
plus
- Allowance for uncollected taxes
equals
- Certified property tax levy
minus
- State and local property tax offsets
equals
- Extended levy for district
divided by
- Total assessed value of district
multiplied by \$1,000 equals
- Derived district tax rate
plus
- Derived tax rates for other districts
equals
- Derived code area tax rate
minus
- State property tax relief rate
equals
- Effective code area tax rate
multiplied by
- Assessed value of taxpayer's property
divided by \$1,000 equals
- Property tax bill

The state general property tax relief included above was eliminated by the 1971 Legislature. Under the 1971 act, low income receivers may apply credits to reduce their property tax bill if the property includes an owner-occupied residence. The lost revenue is replaced by allocations of state-collected revenue.

As shown in the preceding steps, the certified property tax is derived by deducting resources from requirements and adding an allowance for uncollected taxes.

Authorized offsets are subsequently deducted from the certified levy to determine the extended levy. This is the amount that is billed to owners of taxable property in the district.

This amount is computed by multiplying the tax rate (in dollars per \$1,000) by the assessed value of the individual's property. The tax rate is determined by dividing the extended levy by the total assessed value of all taxable property in the district. Thus, the extended levy is distributed or divided among taxpayers in proportion to each taxpayer's share of the taxable value in the district.

What are the implications of budget-making?

The implications are many. Among other things, the process is important in determining:

- ✓ How much property tax we pay; and
- ✓ The kinds and amounts of services and facilities provided by our local governments.

Why should citizens understand budget-making?

By understanding the budget-making process, we may become more effective citizens in determining the public services and facilities we have and the way we finance them. By understanding, we can participate more fully in local determination of programs and costs. We can help to improve our system of determining and financing needed public facilities and services. This takes knowledge, judgment, patience, and perseverance.

This circular was prepared and issued for educational purposes in response to requests from various individuals and groups, especially Extension Home Study groups and Extension Planning Councils. It aims to describe in nontechnical terms, an important part of the process of financing government without evaluating the process or advocating changes.

For additional information about problems, processes, practices, procedures, and policies related to taxation, state and local government finance, or other aspects of community development, contact your local county office of the Cooperative Extension Service. If this office does not have what you need, you may be given help in locating the proper source of information.