



A New Tax Base for Your Local Government?

B.A. Weber

If your local government is seeking a change in its tax base, you need to know what this means. This publication:

- Explains what a tax base is and how it is established
- Explains how Measure 5 affects the taxing ability of local governments: cities, counties, and special districts
- Discusses several issues often raised by voters when evaluating proposals for new tax bases

The fundamental issue in a tax base election is the amount of permanent authority voters give to local government to increase taxes. The choice posed to voters is between:

- Approving the new tax base, which (1) increases the total amount of taxes a local government can levy without seeking special voter approval, and (2) gives the local government permanent authority to increase tax levies up to 6 percent per year from this new level

OR

- Not approving the new tax base, which generally requires the local government to regularly seek voter approval for temporary levies

What is a tax base?

In many states, the term "tax base" refers to the total assessed value of property in a taxing district (for example, a city or county). This is not the case in Oregon.

In Oregon, tax base refers to the total dollar amount of property taxes a government is authorized to levy under Article XI, Section 11 of the Oregon Constitution. This amount, if fully levied, may increase up to 6 percent a year without further voter approval (see Figure 1).

All counties and nearly all Oregon cities have tax bases. Many special districts do not. (Special districts include fire districts, park districts, port districts, and other districts that provide particular services.)

The tax base for a given year is either (1) the highest of the last three levies within the tax base, plus 6 percent, or (2) an amount approved by voters as a new tax base.

For some local governments, the district's 1916 levy (the levy in effect when voters approved the "6 percent limitation" amendment) still is the basis for computing the current tax base.

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 percent a year. Temporary levies (also referred to as levies outside the tax base, levies outside the 6 percent limitation, and excess levies) authorize levies for a specific number of years. There are two types of temporary operating levies:

- Levies that specify a certain tax rate for a period of up to 3 years
- Levies that specify a dollar amount for a period of up to 10 years

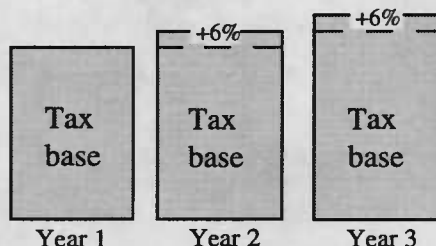


Figure 1.—With a tax base, the total amount of property taxes a local government may levy without seeking special voter approval can increase up to 6 percent each year.

If a local government does not have a tax base, or decides it cannot provide adequate services with revenues available within its tax base, it may seek voter approval for a new tax base or for temporary operating levies outside the tax base.

In fiscal year 1995–96, for example, 16 of Oregon's 36 counties and 44 of its 242 cities had voter approval for temporary operating levies. These levies represented 28 percent of the total county property tax levies and 6 percent of the city levies. (Levies used to retire the principal and interest on voter-approved bonds and pre-1953 continuing rate levies are not included in these figures.)

How does Measure 5 affect tax bases?

Measure 5, a constitutional amendment passed by Oregon voters in 1990, does not affect a local government's tax base. It does, however, limit the property taxes a local government can impose on an individual property. As a result, it may reduce a local government's property tax revenues below the amount allowed by its tax base.

Measure 5 limits the property taxes on an individual property to the following:

- For local governments, \$10.00 per \$1,000 assessed value (1 percent) times the assessed value of the property
- For schools (school districts and community colleges), \$5.00 per \$1,000 assessed value times the assessed value of the property

Most bond levies are exempt from these limits. Voters cannot override the limits.

If the sum of the taxes for a property exceeds these limits, the taxes for each taxing district must be reduced

Bruce A. Weber, Extension economist, Oregon State University. Review and assistance were provided by Bill Aldrich and Linda Ames, Oregon Department of Revenue; Bob Cantine, Association of Oregon Counties; B.J. Smith, League of Oregon Cities; and Frank Stratton, Special Districts Association of Oregon.



proportionately (compressed) so that the sum of taxes is within the limits. If the taxes for the county, city, and special districts in the "general government" portion of your property tax statement sum to more than 1 percent of your assessed value, your taxes are in compression.

If some of the property taxes in a district are compressed, taxes actually imposed will be less than the amount allowed under the tax base (or tax base plus voter-approved levies). In 1995-96, cities, counties, and special districts were able to impose more than 99 percent of their levies.

If assessed value or population increases, does the tax base increase?

No. Increases in assessed value do not affect the tax base. Similarly, population increases have no effect on the tax base.

However, increases in assessed value may reduce tax rates. If a district's property taxes are in compression, reduced rates would lessen compression (i.e., rates would be closer to or below the Measure 5 limits). This may allow the district to increase the taxes it imposes, but only up to the amount allowed under the tax base and any voter-approved levies.

How do local governments get new tax bases?

They must submit to voters a ballot measure specifying the dollar amount of the current tax base and the proposed new tax base. A majority of voters voting on the proposed tax base must approve the measure.

Non-school local governments may hold tax base elections only at primary or general elections (May and November of even-numbered years). Tax bases approved in May 1996 will be used to determine tax levies for the fiscal year starting July 1, 1996. Tax bases approved in November 1996 will apply to tax levies in the fiscal year beginning July 1, 1997.

How would a new tax base affect my tax bill?

The size of your tax bill depends on:

- The levies of each district to which you pay taxes
- The total assessed value of property in each district

- The assessed value of your property
- Whether, for your property, taxes exceed the Measure 5 limits

The effect of a new tax base on your tax bill depends on all these factors.

If non-school taxes on your property would be in compression without a new tax base, approval of a new tax base would not increase your taxes. It would increase the property tax paid to the district with the new tax base and decrease the tax to other districts, but would not change your overall tax bill. This is because you already would be paying the maximum property tax allowed under Measure 5.

If your taxes would not be in compression, approval of a new tax base could increase your property tax bill. This could happen if the new tax base is larger than the total tax that would eventually be levied if there were no new tax base (i.e., the existing tax base plus any temporary levies approved).

How would a new tax base affect services?

The ability of a local government to provide services and maintain quality staff 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.

The effect on services of not approving a new tax base depends on several things:

- How the government would finance services (for example, the district might impose new or increased user charges for 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)

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.

How would a new tax base affect the government decision-making process?

Oregon law provides at least three mechanisms by which citizens can influence local public decisions affecting taxes and services:

- Local election (and recall) of local government officials responsible for adopting budgets and levying taxes
- A budget process that requires public hearings and citizen representation on local budget committees
- The requirement for voter approval of tax levies outside the tax base and of new tax bases

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.

It would, however, change the decision-making process for determining service and tax levels. 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. Rejection of a new tax base strengthens the need for local governments to regularly explain proposed budgets to citizens when seeking temporary levies.

What should I 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:

- Provide the types and levels of service you desire
- Impose an acceptable level of property taxes for these services
- Change the government decision-making process in ways you consider desirable

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