Oregon Local Public Issues

A New Tax Base for Your Local Government?

In recent years there has been increasing pressure on local governments in Oregon to seek voter approval for new tax bases. Inflation, population growth, and state mandates have increased the costs of local government services. Nonproperty tax revenues (state and federal aid, local fees and charges, local nonproperty taxes) often have not increased rapidly enough to permit local governments faced with increasing costs to remain within their tax bases without cutting services. Furthermore, new state laws require many local governments that have levied taxes outside their tax bases in recent years to submit proposals for new tax bases to voters.

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

Tax Bases and Tax Levies

What is a tax base?

In Oregon, a tax base is the maximum amount of property taxes a local government can levy without voter approval. The Oregon Constitution limits tax bases to a maximum growth of 6 percent per year unless voters approve a new tax base.

In many other states, the term "tax base" refers to the assessed value of a taxing district. (The terms "taxing district" and "local government" are used interchangeably in this publication.)

Is a tax base the same as a tax levy?

No. A tax base is the amount a government is authorized to levy without voter approval. The tax base of a district 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 tax base in a primary or general election.

A tax levy is the amount actually levied by the district to balance its budget. For most local governments in Oregon, the tax levy is larger than the tax base because taxing districts seek, and voters approve, special "levies outside the tax base" (also referred to as "levies outside the 6 percent limitation").

In fiscal year (FY) 1980, for example, 16 of the 36 counties, 117 of the 241 cities, and 251 of the 312 school districts in Oregon had voter approval for levies outside their tax bases. Levies outside the tax bases represented 12 percent of the total county property tax levies, 48 percent of the city levies, and 69 percent of the school district levies. (Levies used to retire the principal and interest on voter-approved bonds are not included in these figures.)

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

No. Increases in assessed value (except those increases due to annexation of new territory) do not affect the tax base. Similarly, increases in a district's population have no effect on the tax base. Regardless of how a district's assessed value or population changes, the tax base can increase by a maximum of 6 percent per year (unless voters approve a new tax base).

Does every local government have a tax base?

No. Although all counties and nearly all of Oregon's cities have tax bases, many school districts and other special districts do not have tax bases. One-third of Oregon's more than 300 school districts, for example, do not have tax bases. This is due in part to a 1946 referendum in which the people of Oregon transferred the tax bases of Oregon's smaller school districts to the "rural school districts," predecessors of the present educational service districts (ESD's). A number of smaller school districts lost their tax bases as a result of this.

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 through voter approval of a tax base measure.

Taxing districts without tax bases must submit their entire levies to the voters as special levies outside the 6 percent limitation.
A Hypothetical Example

A small taxing district submits a proposal to the taxpayers in November 1980 for a new tax base of $3,500. This would become the tax base for the 1981-82 fiscal year. The existing 1980-81 tax base is $943. Suppose the 1981 assessed value of the district will be $1,000,000. The district's effective 1981-82 tax rate for homeowners is shown for three possible situations:

<table>
<thead>
<tr>
<th>Case I: Voters pass proposed tax base</th>
<th>Case II: Voters reject proposed tax base &amp; subsequent special levies</th>
<th>Case III: Voters reject proposed tax base, but pass special levies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax base</strong></td>
<td><strong>0</strong></td>
<td><strong>0</strong></td>
</tr>
<tr>
<td><strong>A levy</strong></td>
<td><strong>0</strong></td>
<td><strong>0</strong></td>
</tr>
<tr>
<td><strong>B levy</strong></td>
<td><strong>0</strong></td>
<td><strong>200</strong></td>
</tr>
<tr>
<td><strong>Total tax levy</strong></td>
<td><strong>3,500</strong></td>
<td><strong>1,000</strong></td>
</tr>
<tr>
<td><strong>Tax rate</strong></td>
<td><strong>$3.50</strong></td>
<td><strong>$1.00</strong></td>
</tr>
<tr>
<td><strong>Effective homeowner tax rate</strong>(basis for comparison)</td>
<td><strong>$2.45</strong></td>
<td><strong>$0.70</strong></td>
</tr>
<tr>
<td><strong>Service level</strong></td>
<td><strong>lower than Case I</strong></td>
<td><strong>same as Case I</strong></td>
</tr>
</tbody>
</table>

In Case I, voters pass the tax base proposal for 1981-82 tax base of $3,500. The State pays 30 percent of homeowners' tax bills, because the entire levy is within the tax base. The effective homeowner tax rate is $2.45.

In Cases II and III, voters reject the proposed tax base. In Case II, voters reject the proposed $3,500 tax base and any subsequent special levies; thus, the tax levy in 1981-82 is limited to the 1980-81 tax base plus 6 percent, or $1,000 ($943 x 1.06). Because the State pays 30 percent of homeowners' tax bills on levies within the tax base, the effective tax rate for homeowners is $0.70.

In Case III, however, voters reject the proposed tax base and subsequently pass special A and B levies which, together with the existing tax base, result in a total tax levy of $3,500.

In Case III the State would pay 30 percent of the tax bills based on the $1,000 tax base plus the $200 A levy. The effective homeowner tax rate on the tax base and A levy would be $0.84 ($0.7 x $1.00 for tax base plus $0.20 for A levy = $0.7 x $1.20 = $0.84). Since the State would pay nothing on the B levy, the effective homeowner rate on the $2,300 B levy is $2.30. The total effective homeowner tax rate is $0.84 + $2.30 = $3.14.

Clearly, the effective homeowner rate in Case III depends on the proportion of the special levies that qualify as A levies and on the size of the levies approved by voters. If all of the $2,500 outside this tax base had qualified as an A levy, then the State would have paid 30 percent of the entire homeowner tax bill; the effective rate would have been $2.45—just as if the entire amount had been within the tax base. If none of the special levy had qualified as an A levy, then the effective tax rate for homeowners would have been $3.20 ($0.7 x $1.00 plus $2.50).

The effective rate also depends on the size of the levies approved by voters. The effective homeowner tax rate in Case III can vary upwards from $0.70, depending on the size of the special levies sought by districts and approved by voters.

---

How many local governments have new tax bases?

Quite a few. In the May 1980 primary election, for example, 2 counties, 38 cities, and 88 school districts approved new tax bases.

Most local governments in Oregon, however, do not have new tax bases. Most tax bases in Oregon are determined by adding a maximum of 6 percent per year to some historical levy. For many governments, the basis for computing the current tax base is the district's 1916 levy (the levy in effect when Oregon voters approved Article XI, Section 11 of the Oregon Constitution to establish the 6 percent limitation).

How do local governments get new tax bases?

A majority of voters voting on a proposed new tax base must approve such a proposal in a primary or general election. These elections occur only in May and November of even-numbered years. The ballot measure must specify in dollars and cents the amount of the tax base in effect and the amount of the proposed new tax base. Once a new tax base is levied in full, subsequent levies can exceed this new figure by up to 6 percent per year. Tax bases approved in May 1980 were used in determining tax levies for the fiscal year starting July 1, 1980. Tax bases approved in November 1980 apply to tax levies in the fiscal year beginning July 1, 1981.
Issues: Tax Bills, Services, and Local Control

How would approval of a new tax base affect my tax bill?

This depends on how large the new tax base would be relative to the special levy voters would approve if the tax base proposal were rejected. Because of a provision in the 1979 property tax legislation, a new tax base may result in a lower homeowner tax bill than would be the case with a special levy of the same size.

The 1979 Legislature passed (and Oregon voters subsequently approved in a referendum) a law which provides that the State pay 30 percent of homeowners' tax bills based on levies within the tax base and on A levies. The State will pay no part of the homeowners' bills based on B levies. Extension Circular 1008, "Ballot Measure 5 and Oregon's Tax System," contains a more complete explanation of the 1979 legislation and A and B levies.

In certain situations, this legislation provides an incentive for voters to approve new tax bases. In Case III of the above example, voters, after rejecting a proposed tax base, subsequently approve A and B levies authorizing a total levy as large as would have been possible under the proposed tax base. Homeowners end up with the same level of services as they would have had under the new tax base—but with a higher tax bill.

The effect of approval of a new tax base on your tax bill depends on (1) the size of the A levy permitted to the district; and (2) the size of A and B levies that would be sought by the district and approved by voters if the proposed tax base were rejected.

How would approval of a new tax base affect the services I receive?

This depends on:

- how large the proposed tax base is relative to the total levy voters would approve if the tax base proposal were rejected;
- how the government might finance its services with and without a new tax base;
- how efficient the government would be in providing services with and without a new tax base; and
- which types of services the government would provide with and without a new tax base.

If, as in the case sometimes, the case, voters reject a proposed tax base and subsequently approve special levies which, when combined with the existing tax base, result in the same total levy as would have been the case with the proposed tax base, rejection of a tax base may have no effect on services. Case III is an example of this situation. Once a tax base is rejected, of course, there is no guarantee that the government will seek equivalent levies outside the 6 percent limitation, or that voters will approve such levies. In Case II, either the government did not seek or voters did not approve special levies subsequent to rejection of the proposed tax base. In this case, voter rejection of a tax base proposal results in lower services (and lower taxes).

Local governments can charge for certain services, such as sewer, water, library, swimming pool, and parks, among others. A common response to budgetary difficulties is to increase user charges. Rejection of a tax base might lead local governments to increase charges. In this way it might be possible to finance services that would otherwise have to be cut. There are, however, legal and practical limits on substitution of user charges for property taxes.

If there are few opportunities to increase efficiency in the provision of services, few or no opportunities to increase charges, and if rejection of a tax base results in a lower total levy, the district must respond by providing fewer services than it would have with a new tax base. The effect of not having a new tax base on the services you receive depends on which services the district decides to reduce or not provide at all. Often, the first services to be reduced or discontinued are those not mandated by law (frequently state law). For counties, for example, nonmandated services include certain services for veterans and the aging, certain mental health services, predator control, Extension Service, and parks and playgrounds.

The ability of a local government to provide certain services and maintain quality staff also depends to some extent on its capacity to make firm financial commitments. Approval or rejection of a new tax base can affect this capacity and thereby affect both the type and quality of service provided by a local government.

Approval or rejection of a tax base may also affect the amount of services you receive by affecting the amount of time and energy public officials have to deliver services as opposed to preparing for special levy elections. If rejection of a tax base results in more proposals for special levies, officials will have less time and energy to devote to service delivery because of the effort needed to collect, summarize, and distribute in-
formation about the special levy and to process the paperwork on special levy elections. Special levy elections involve out-of-pocket costs as well, and money spent on special elections is not available for providing other services.

How would approval of a new tax base affect local control?

The issue of local control is complex. "Local control" means different things to different people. To some, local control is the ability of voters to have a say in the size of the tax levy of a local government. To others, it is the ability of voters (through their elected officials) to determine the scope and level of local government services without restrictions from the state and federal governments. To others, it is the ability of voters to deny local governments the chance to make expenditures which would substantially increase the level of property taxes.

Voters concerned about how a new tax base affects local control may wish to ask themselves these questions:

- What kind of control do I want voters to have over local government?
- For this kind of control, is it necessary that voters vote every year on all or major portions of a district’s tax levy?
- Are state and federal governments likely to get more involved in the provision of services if the district does not receive a new tax base?
- Would voters have more of the type of control I want with a new tax base or without it?

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, voters should consider: (1) the types and levels of service desired; (2) the amount of property taxes they are willing to pay for the desired services; (3) the amount and type of control one wishes voters to have in local government decisions; and (4) the size of the special A and B levies likely to be requested by the local government and approved by voters if the proposed tax base is rejected. A careful evaluation of these factors should help voters in making decisions about proposals for new tax bases.

Prepared by Bruce Weber, Extension economist, Department of Agricultural and Resource Economics, and Gregory Tillson, Extension community development agent, Oregon State University. Rick Harrington (Oregon Department of Revenue), Noel Klein (League of Oregon Cities), Bill Pennhollow (Association of Oregon Counties), James Scherzinger (Oregon Legislative Revenue Office), and Russell Youmans (Oregon State University) made suggestions which greatly improved this circular; they, of course, share no responsibility for its shortcomings.