BEFORE THE COUNCIL OF THE
METROPOLITAN SERVICE DISTRICT

FOR THE PURPOSE OF ESTABLISHING OPPOSITION TO BALLOT MEASURES 9 AND 11	))))	RESOLUTION NO. 86-692 Introduced by Presiding Officer Waker

WHEREAS, A property tax limitation measure has been placed on the November 4, 1986, ballot as Measure 9; and

WHEREAS, Measure 9 places a limitation of 1.5 percent ($15/$1,000 TCV) in property taxes which can be levied against any property; and

WHEREAS, Measure 9 requires the State Legislature to apportion the limitation among the various local governmental units which erodes the responsibility and authority of local governments and citizens to determine locally the level and intent of funding local programs; and

WHEREAS, Measure 9 severely restricts the ability of local governments to place local tax measures before the voters by limiting the number of election dates to two per year, thereby substantially increasing the number of funding measures on each ballot and making approval more difficult; and

WHEREAS, Measure 9 will jeopardize the financial stability of the Zoo because the District most likely will not be allocated a tax levy within the 1.5 percent limitation and it is difficult to ascertain voter acceptance of new tax rate proposals which will exceed the limitation; and

WHEREAS, A homestead exemption measure has been placed on the November 4, 1986, ballot as Measure 11; and

WHEREAS, Measure 11 will over time likely cause a shift of local property tax burden from "owner-occupied principal properties" to other classes of property, such as commercial and industrial property which can have a negative impact on economic development in Oregon; and

WHEREAS, Measures 9 and 11 will make it necessary for the state of Oregon to provide property tax replacement revenue to local governments which in turn will jeopardize state funding of the Convention Center Project; now, therefore,

BE IT RESOLVED,

1. That the Council of the Metropolitan Service District finds that Ballot Measures 9 and 11 will be harmful to the orderly and effective provision of local and regional services and threaten the principle of local control of finances.

2. That the Metro Council opposes passage of Ballot Measures 9 and 11.

3. That the Metro Councilors will assist those groups opposing these measures in informing taxpayers of the numerous and actual impacts these measures will have on regional services.

ADOPTED by the Council of the Metropolitan Service District this 9th day of October, 1986.

Richard Waker

Richard Waker, Presiding Officer

DEC/gl
6314C/472
10/01/86

METRO

2000 S.W. First Avenue
Portland, OR 97201-5398
503/221-1646

Memorandum

Date: October 1, 1986

To: Metro Council and Executive Officer

From: Donald E. Carlson, Deputy Executive Officer DEC

Regarding: IMPACT OF BALLOT MEASURES 9 AND 11 ON THE METROPOLITAN SERVICE DISTRICT

The purpose of this memo is to describe the impact of Ballot Measure 9 (1-1/2% Property Tax Limitation) and Ballot Measure 11 (Homestead Exemption) on the District. Primary sources of information for this memo include the Attorney General's Opinion No. 8179 dated September 10, 1986, and the Legislative Revenue Office Research Reports 9-86 and 10-86 titled "The Impact of Measure 9 -- 1.5% Property Tax Limit" and "The Impact of Measure 11 -- Homestead Exemption" both dated September 11, 1986. The Research Reports are attached and the Attorney General's Opinion is available upon request.

BALLOT MEASURE 9
1.5% Property Tax Limitation

I. DESCRIPTION OF MEASURE

This measure if enacted does the following:

A. Repeals Section 11 of Article XI of the Oregon Constitution and replaces it with a new Section 11. Eliminates local "tax bases" (dollar amount levy which can be increased 6% each year and levied each year without a vote). Changes the basis of our property tax system from a dollar amount levy to a tax rate levy system (e.g., Metro sought a tax base of $4,375,000 and under the proposed system would have sought approval to levy a tax rate of $.14 per $1,000 of true cash value).

B. Places a limit on the total tax rate (sum of all tax rates levied on a particular piece of property) of

- 2% ($20/$1,000 TCV) for 1987-88
- 1-1/2% ($15/$1,000 TCV) for all years after 1987-88.

C. Distributes the property taxes within the limitation among taxing units as follows:

- For 1987-88 the taxes collected from 1987-88 levies (within 2% total limit) must be distributed in the same proportions as 1986-87.

- For 1988-89 and thereafter the distribution of the tax rate (1.5%) must be defined by the Legislature. Based on the constitutional requirement of uniformity of taxation on all taxpayers in a district it is highly likely that the Legislature will apportion the tax rate ($15/$1,000 TCV) among cities, counties and school districts. The example used in the Legislative Revenue Office research report is as follows:

	Maximum Tax Rate
Cities	$ 2.30
Counties	1.60
Community Colleges	.75
Schools, ESDs	10.35
Total	$15.00

D. The measure limits the growth of assessed value to 2% per year.

E. The measure authorizes tax rate levies which exceed the 1.5% rate limit when approved by a majority vote of those voting on the measure. Elections for these measures are limited to two times a year -- May and November of each year starting on December 4, 1986 (effective date of measure).

F. Property tax levies (after July 1, 1987) for bonded indebtedness authorized prior to December 4, 1986, are exempt from the 1.5% limitation. Tax levies to pay debt service for new bonded debt are subject to the election requirements above (including Bancroft Bonds as currently defined for LIDs).

II. IMPACT ON METRO

A. Zoo Serial Levy -- The three-year mixed serial levy for the Zoo expires at the end of this fiscal year. Current plans call for a new three-year levy to be submitted to the voters on March 31, 1987. Measure 9 would allow a vote only in May or November 1987 for a proposed levy which would be effective starting in FY 1987-88.

In all likelihood the Legislature will not allocate a portion of the 1.5% rate limitation to the District, so any levy proposed by the District will be done so outside or in excess of the limitation. This means the majority of voters voting on the measure must approve it, the same as occurs under current law for Metro's serial levy. It should be pointed out also that the Attorney General is of the opinion that legislation is needed before any unit can propose a levy to the voters in May.

B. Convention Center Financing -- The $65 million G.O. bonds would be unaffected by this measure since authorization by the voters would precede the effective date of Measure 9. There is an indirect affect on the bonds, however. If the District has severe financial problems or instability in financing its other functions, the District's credit rating will suffer resulting in higher interest costs.

The $5 million dollar City of Portland LID revenue could be impacted since it appears according to the Attorney General's Opinion the sale of Bancroft Bonds (G.O. bonds as they are currently defined) would have to be approved by all the voters in the City if Measure 9 passes. Currently the City Council has the authority to sell Bancroft Bonds without a vote of the people.

The $15 million state appropriation could face added difficulty because Measure 9 would limit the amount of local tax revenue for schools and other local services. The state of Oregon will be asked to fund local revenue shortfalls, particularly for schools, thus causing extreme pressure on state revenues. The Legislative Revenue Office reports a loss of local government and school revenue of $402 million in FY 1987-88 and $835 million in FY 1988-89. This may make obtaining an appropriation from the state for the convention center difficult.

C. Solid Waste Facilities -- It does not appear that Measure 9 will have any immediate impact on the funding of transfer stations, the new landfill or alternative technology projects. This is because these projects will be funded by revenue bonds which are backed by the solid waste fee system.

As with the convention center G.O. bonds, a secondary impact could be higher interest costs if the District has severe financial problems with its other functions. Such problems could negatively affect the District's credit rating which in turn could cause interest rates on bonds to increase.

BALLOT MEASURE 11
Homestead Exemption

I. DESCRIPTION OF MEASURE

A. Measure 11 exempts the first $25,000 of assessed value of a "owner occupied principal residence" but not more than half of its assessed value from property taxation.

B. The measure requires the state to reimburse each taxing unit no less than 80% of the revenue which would otherwise be acquired had the exemption not been granted. Such reimbursement has priority over other state General Fund expenditures. Requires that not more than 50% nor less than 10% of the local government property tax reimbursements shall come from state lottery proceeds.

C. The measure provides that if another measure which provides property tax relief is on the same ballot then the measure receiving the greatest number of affirmative votes shall be part of the constitution and the amendments approved in any other measure and repealed. (But since other measures do not contain this provision, it is unclear that this measure will nullify them if they pass.)

II. IMPACT ON METRO

This measure would have no impact on the ability of the District to levy property taxes. It appears that there would be no loss of revenue resulting from the local tax collections and the state reimbursement. The reason for this is that under the current system local property tax levies are based almost entirely on dollar amounts. If the levy amount is the same and the assessed value of a unit decreases (homestead exemption) then the unit's rate is increased to produce the desired amount of the levy. Under this measure if the state reimbursement is less than 100% of the homestead exemption loss then the local tax rate would be increased to make up the difference.

An impact of this measure will be to shift the tax burden from residential property to commercial and industrial property. This may have a detrimental affect on economic development in Oregon.

As was the case with Measure 9, a secondary impact on the District could be difficulty in obtaining a state appropriation of $15 million for the convention center since the state will be required to provide property tax relief of at least 80% of revenue cost to schools and other local governments out of existing revenues. The Legislative Revenue Office report estimates that full funding of the revenue shortfall in FY 1987-88 would cost $310 million. It should be pointed out that Ballot Measure 12 is a companion proposal to this measure. It provides for an increase in state income tax rates to fund the property tax relief resulting from the homestead exemption. It appears, however, that Measure 12 is unlikely to be passed, so no further analysis has been prepared.

DEC/gl
6310C/D5

STATE OF OREGON
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LEGISLATIVE REVENUE OFFICER
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378-8873

RESEARCH REPORT 9-86
September 11, 1986

THE IMPACT OF MEASURE 9
1.5% Property Tax Limit

On November 4, 1986, Oregonians will vote on four measures that would make major changes in Oregon's tax system. This report is one of a series of three reports on these measures. This report contains:

- A general description of Measure 9
- A more detailed description of the Measures's effect on the existing property tax system.
- A summary of the assumptions used to prepare this report
- An estimate of the statewide impact in 1987-88 and 1988-98
- A simulation of the effect the measure would have had on each local taxing district if it had been in effect in 1985-86

DESCRIPTION

Measure 9 is an initiative to amend the Oregon Constitution. It imposes a property tax rate limit of 2% in the first year and 1.5% in following years, a 2% value growth limit and repeals existing tax bases.

Repeals Tax Bases

Measure 9 repeals the existing Section 11 of Article XI of the Oregon Constitution. and replaces it with a new Section 11.

The existing Section 11 limits the dollar amount of property taxes that a district can levy. Under the existing Section 11 a districts permanent taxing authority, called a "tax base", may grow by up to 6% a year without voter approval. In addition, voters may approve special levies outside the tax base.

Tax Rate Limit

Measure 9's new Section 11 limits property tax rates. The measure imposes a limit on the total property tax rate. The total tax rate is the sum of all the district (county, city, school, etc.) tax rates levied on a particular parcel of property. The new rate limit is:

- For 1987-88 only - 2% of assessed value or the 1985-86 total tax rate, whichever is less
- All years after 1987-88 - 1.5% of assessed value or the 1985-86 total tax rate, whichever is less

Measure 9 specifically excludes the following from the rate limit:

- Property taxes levied to pay current or future bonded debts.
- Capital construction serial levies existing on July 1, 1986 that extend beyond July 1, 1987.

Voters may approve a tax rate over the rate limit. These rate limit "override" provisions are outlined later in this section.

Assessed Value

Measure 9 limits the growth of assessed value to 2% a year.

For example, suppose a property had an assessed value of $100,000 in 1986 and this value will grow under the current system to $125,000 by 1990. As shown in the table below, the value for this property under Measure 9 in 1990 would be $108,243.

	Current System Assessed Value	Measure 9 Assessed Value
1986	$100,000	
1987	105,000	$102,000 (+2%)
1988	110,000	104,040 (+2%)
1989	115,000	106,121 (+2%)
1990	125,000	108,243 (+2%)

The 2% of value growth limit is a maximum. Growth could be slower. In the above example, the property's current system assessed value always grew faster than 2%, so the growth limit always controlled. If, however in some year the current system value increase was less than 2%, then the lower current system growth would control. For example, suppose our $100,000 property in 1986 falls in value in 1988 as shown in the table below. In this case the decline in value would create a new lower base value which would be limited to 2% annual growth thereafter, or until another market value decline again reduced the base below the 2% limit.

	Current System Assessed Value	Measure 9 Assessed Value
1986	$100,000	
1987	105,000	$102,000 (+2%)
1988	95,000	95,000 (current)
1989	100,000	96,900 (+2%)
1990	110,000	98,838 (+2%)

Unlike previous measures of its type, Measure 9 generally does not reduce values from their current level. There is no general rollback in value for all property in the first year.

However, property which changes ownership or special assessment will be rolled back to its 1985 assessed value plus 2% or less per year. New constuction and improved property will be assessed as similar property was valued in 1985 plus 2% or less per year.

Thus properties not changing ownership or special assessment are limited to annual assessed value growth of 2% from 1986, whereas rollback property is limited to 2% growth from 1985.

Distribution of Property Taxes

Measure 9 specifies how property taxes will be distributed for the first year (1987-88) only. In the first year, taxes collected from the 1987-88 levies must be distributed in the same proportions as those for 1986-87.

For 1988-89 and thereafter, Measure 9 does not require any particular distribution of property tax revenues. This means the Legislature must find a method of dividing the limited tax rate among the taxing districts. The method chosen must:

- Guarantee that no tax rate exceeds the maximum (1.5% plus voter approved increases).
- Maintain a uniform district tax rate on all taxpayers in the district.

The complications involved in implementing the fixed distribution in 1987-88 and achieving uniformity of the district tax rates are discussed later in this report.

Exceeding the Rate Limit

Measure 9 requires a vote of the people to increase property tax rates. The new election limits apply if either:

- A district is proposing to increase a rate or to impose a new rate,
  OR
- The proposed rate would cause the total district tax rates on any property within the district to exceed the rate limits in the measure.

The election limits would apply to bond levies to repay new local bonds, even though the rate limits do not. The election limits do not apply to bond levies to repay existing debt or to repay future debt of State Constitutionally authorized bond programs.

Elections to increase a district tax rate can only be held twice a year - on the third Tuesday in May or the first Tuesday after the first Monday in November. In even numbered years these are the dates of the primary and general elections.

Effective Dates

The measure takes effect on December 4, 1986. The measure would first affect property values and levies in fiscal year 1987-88.

Prior Rate Initiatives

Measure 9 is similar to earlier rate limitation initiatives rejected by the voters in 1968, 1978, 1980, 1982, and 1984. There are, however, a number of significant differences in Measure 9. Prior measures contained a general rollback in value, separate renter relief, provisions on HARRP, limits on fees and charges and special assessments, and other items. Measure 9 generally is simpler, and makes no mention of these tax issues.

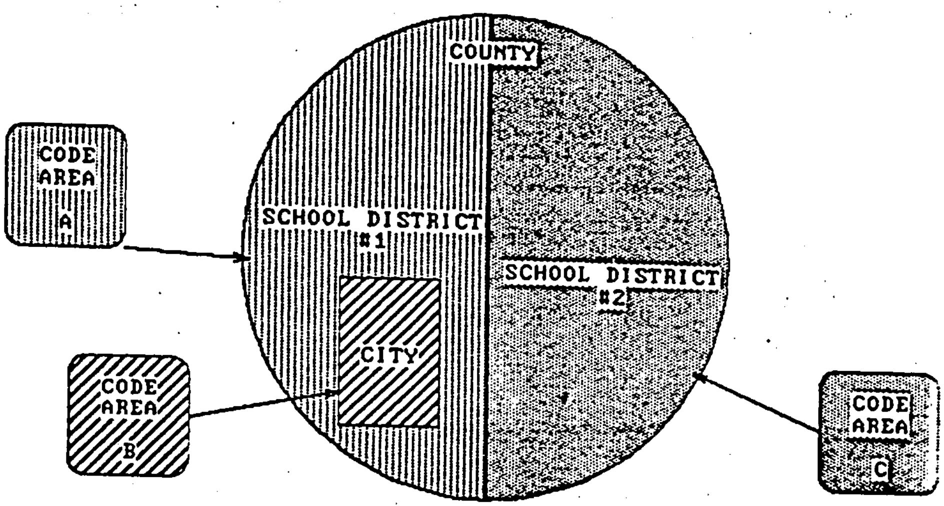
UNIFORMITY AND MEASURE 9

The Oregon Constitution requires uniformity of taxation. The courts have interpreted this requirement as it relates to property taxes. The interpretation dictates that all property in a taxing district pay an equal (uniform) tax rate for that district.

As we enter the real world maze of overlapping taxing districts, this requirement creates district subsets called Code Areas. A code area is a geographic region in which all property pays taxes to the same taxing districts.

Code Area Examples

To make this clearer, let's explore the following example of a county with four taxing districts and three code areas.



Note that all property in the region on the map is in one of the three code areas. Properties in code area A pay taxes to the County and School 1. Those in code B pay to the County, the City, and School 1. All those in code C pay to the County and School 2.

Let us further assume the following levies and assessed values for our example districts.

District	Levy	Value ($1000)	Tax Rates ($ per $1000)
County	$ 400,000	$200,000	$ 2.00
City	375,000	50,000	7.50
School 1	1,125,000	100,000	11.25
School 2	1,850,000	100,000	18.50

Figuring the Total Tax Rate

Suppose you own a $100,000 property in code area C. Your property is in the County and School 2. Below is your tax bill.

District	Tax Rate	Taxes
County	$ 2.00	$ 200.00
School 2	18.50	1,850.00
Total	$20.50	$2,050.00

Your total tax rate is $20.50. Every property in code area C is taxed at that rate, because they are all in the same combination of districts.

The following table shows the calculation of the total rates for all three code areas in the example. Note that the total rate is called the consolidated tax rate.

	Code A	Code B	Code C
County	$ 2.00	$ 2.00	$ 2.00
School 1	11.25	11.25	
School 2			18.50
City		7.50	
Consolidated Rate	$13.25	$20.75	$20.50

Uniformity and Measure 9

Measure 9 imposes a $15 limit on the consolidated tax rate beginning in 1988-89. For these illustrations assume the rate limit is $15.

Let's impose the $15 rate limit on our example. Code area A at $13.96 is no problem. But codes B and C's rates are too high and must be reduced. But how?

Measure 9 does not provide an answer.

One way is to reduce both codes B and C to $15 and force the districts in B and C to cut their rates proportionately. The table below shows this solution.

	Code A	Code B	Code C
County	$ 2.00	$1.45	$ 1.46
School 1	11.25	8.13	
School 2			13.54
City		5.42	
Consolidated Rate	$13.25	$15.00	$15.00

Unfortunately this solution violates the Constitutionally required uniform rates. The County tax rate is different in every code area, and School 1's rate is different in both its code areas.

Alternatives

If Measure 9 passes, the Legislature will have to devise a system of uniform rates to divide the $15 maximum rate among local districts. There are many such systems. One would be to roughly follow the proportional approach above, but make adjustments to force uniform rates across districts. Another is a statewide allocated rate by type of district. This is discussed further later in the report.

THE FIXED FIRST YEAR DISTRIBUTION

In the 1987-88 fiscal year only, the taxes raised within the Measure 9 limits must be distributed to local districts in the same proportion that existed in 1986-87.

The first year fixed distribution applies only to taxes within the 2% rate limit and the amount of 1985-86 tax limit. It does not apply to bond levies or voter override levies.

A Quick Review

Understanding the 1987-88 fixed distribution requires a quick review of the current property tax collection system. Let's do it by example.

Suppose you own the $100,000 property in code area C in the example on page 5. Your taxes are $2050. When adding up your taxes, the assessor figures them this way.

District	Tax Rate	Taxes
County	$ 2.00	$ 200.00
School 2	18.50	1850.00
Totals	$20.50	$2050.00

But when the county tax collector and treasurer get your money, they do not pass it out that way - at least not directly. Instead they throw your money in a big pot along with everyone else's in the county, including property taxes from code areas B and C. The big pot is called the unsegregated tax account.

When it comes time to send the taxing districts their share of the pot, the treasurer just divides up the money in the unsegregated tax account in proportion to each district's levy. Thus, in the example, School 1 gets 30% of the account, School 2 get 49.33%, and City gets 10%, and the County gets 10.67%. These proportions are fixed for each tax year depending on that year's levies.

Measure 9

Measure 9 requires that the 1986-87 proportions be used in 1987-88.

This means that, in 1987-88, each district's share of every dollar collected within the Measure 9 limits is fixed. If a district got 10% of every property tax dollar collected in the county for 1986-87, it will get 10% of every dollar collected inside the limit in 1987-88.

Effect on the Fixed Distribution

Under Measure 9 in 1987-88, each district's tax revenue depends on the total amount collected in the county, not on the amount of the district's levy.

This means that the method used to get under the Measure 9 limits affects a district's revenue only if it affects the total amount collected in the county. More money raised inside the limit means more money for all districts. A lower total means less for all.

Suppose, for example, the Legislature chooses to conform to the Measure 9 limits by taking some districts off the property tax by reducing their levies to zero. In 1987-88, these districts would still collect property tax revenue. They would get a fixed share of all the taxes levied in the county - the same fixed percentage share they would get if their levy were not reduced.

Figuring the Fixed Shares

Each district's fixed share in 1987-88 is the same share the district got of 1986-87 property tax levies. The assessor in each county has already figured these shares, but most will have to be adjusted because they include bond levies and nonproperty tax revenue or because the assessor may have calculated a supplemental tax levy.

Uniformity in 1987-88

According to prior opinions of the Attorney General (see question 7B of opinion #5708), someone must devise a system of uniform district tax rates in 1987-88. These rates will determine each property owner's taxes in 1987-88, and they will determine the total amount of taxes collected, but they will not determine how the money is divided among taxing districts.

The determination of these rates is fraught with problems. Almost any method chosen will result in some subsidy of districts in high tax rate areas of a county by districts in low rate areas in 1986-87. This occurs because the $20 rate limit gives taxpayers in high rate areas bigger tax cuts than taxpayers in low rate areas, but the fixed distribution gives districts in high rate areas about the same percentage loss of revenue as districts in low rate areas.

Some uniform rate allocations avoid this problem. But they do it by giving everyone the same tax cut that the area with the biggest cut gets, which means they cut local district revenue by a larger amount than other plans.

ASSUMPTIONS AND METHODOLOGY

The estimates in this report are based on a number of assumptions. This section summarizes the principal assumptions and outlines the methodology followed.

Base Year

The base year for comparing Measure 9 to the current system at the district and code area levels is the 1985-86 tax year. It is the most recent year of complete property tax data by code area. It is also the year used by Measure 9 to limit tax rates if they are below 1.5% (2% in the first year).

Assessed Value

This analysis assumes that property values will grow very slowly, if at all, in the next few years even without Measure 9. The total true cash value of the state has dropped or remained flat each of the last three years and preliminary figures indicate this will not change next year. Thus this analysis assumes Measure 9 will only have a small effect on values over the forecast period.

For the simulation runs in tax year 1985-86 at the end of this report, we did not adjust assessed values from their actual values.

Rate Allocation

The most important assumption in this analysis is the method of dividing taxing authority among districts. The method is not specified in Measure 9. The Legislature must devise some system of uniform tax rates that gets all tax rates below the rate limit.

First Year

Because of the fixed distribution in the first year, the method chosen to get tax rates below the Measure 9 limits only affects the total amount collected. It does not affect which districts get the money. So as not to overestimate the impact of Measure 9 we assumed the Legislature would choose a method that maximized the tax revenue permitted under the limits in 1987-88.

Second Year

The analysis assumes the $15 maximum rate in the second year is divided among the major types of taxing districts in proportion to their total levies statewide for 1985-86. The maximum rates are shown on the next page.

	Maximum Tax Rate
Cities	$ 2.30
Counties	1.60
Community Colleges	.75
Schools and ESD's	10.35
TOTAL	$15.00

In addition, any unused city rate was allocated to fire districts if it could be levied uniformly across a fire district. ESD's were allocated 39 cents of the school rate, with any leftovers reverting back to the schools, except that Grant, Harney, Wallowa and Wheeler ESD's got the full school rate.

No Voter Override

This analysis assumes voters will not approve tax levies outside the rate limits in the measure. This is an extremely important assumption. The election requirement in Measure 9 is significantly tougher than current law. Districts may hold tax elections only twice a year - and one of the dates (November) is very inconvenient for the budget process. Nonetheless, the requirement is less stringent than that contained in previous measures of this type. Previous measures required a 50% turnout, a two-thirds approval, or allowed no override at all. Some districts undoubtedely will get authority to levy outside the rate limit in the forecast period, but no one knows which ones or by how much.

Federal Tax Reform

This analysis assumes current federal and State income tax law. There is not enough data to include the effects of the proposed federal tax reform in this analysis. Inclusion of these effects would not significantly alter the results.

Normal Property Tax Growth

The projected impacts assume property tax levies would normally grow by just over 6% a year between now and 1987-88. This assumption is slower than the long term average growth rate but slightly faster than the most recent two years.

Offsets

Offsets are apportioned proportionally to bond and operating levies.

1985 SIMULATION

This section answers the question: "What would have been the effect of Measure 9 if it had been in effect in the 1985-86 tax year?" The detailed district and code area tables at the end of this report answer the same question for each district and code area included. In addition, all the projections in the next section are based on this simulation.

First Year Simulation

Because of the fixed distribution in the first year, the method chosen to get tax rates below the Measure 9 limits affects only the total amount collected. It does not affect which districts get the money. So as not to overestimate the impact of Measure 9, we assumed the Legislature would choose a method that maximized the tax revenue permitted under the limit in the first year, yet still met Constitutional uniformity requirements.

To get an idea of the theoretical maximum, we first assumed we could levy the Measure 9 maximums - either the 2% rate or the 1985 rate - in all code areas. Because this approach violates uniformity, the Legislature could not do this. But it provides a good benchmark to judge other options against. This approach yielded $1.500 billion in 1985-86, a 10% revenue loss from the $1.667 billion in actual operating levies.

After a bit of experimentation, we found that simple rate allocation rules were not adequate when the maximum tax rate was 2%. The optimum approach was to piece together a complex rate allocation that would work for one year only. That approach produced $1.453 billion in 1985-86 - only $47 million short of the theoretical maximum. This approach is used as the basis for the first year projections in the next section.

Second Year

To simulate the second and subsequent years, we used the rate allocation described in the assumptions. Our analysis of prior measures (see Research Report 5-84) has shown that at a 1.5% maximum rate, the statewide rate allocation produced more revenue than other methods that might work on a permanent basis. The table on the next page shows the simulated effect by type of district.

1985 SIMULATION
MEASURE 9 IN THE SECOND YEAR

	Operating Property Tax Levies		
	Current System Actual	Measure 9 Simulated	Difference
Counties	$170	$114	$56 (-33%)
Cities	238	99	139 (-58%)
Community Colleges	78	48	30 (-39%)
ESD's	70	33	37 (-53%)
Schools	1,013	796	217 (-21%)
Fire Districts	65	28	37 (-57%)
Others	33	0	33 (-100%)
Total	1,667	1,119	548 (-33%)

Levy figures in millions of dollars.

PROJECTED REVENUE IMPACT

Property Tax

The table below summarizes the projected statewide property tax impacts in 1987-88 and 1988-89 from Measure 9 under the assumptions described earlier in this report.

PROJECTED PROPERTY TAX REVENUE

assuming no voter overrides

	1987-88	1988-89
Current System		
Total value	$83,635	$86,144
Total levies	2,027.1	2,162.9
Average tax rate	$24.24	$25.11
Measure ~~11~~ 9		
assessed ~~True cash~~ value	83,635	85,935
Levies after payment	1,624.6	1,327.4
Average tax rate	$19.42	$15.45
Total change in taxes	-$402.5	-835.5
Average percentage change	-19.9%	-38.6%

Levy figures in millions.
Figures do not include urban renewal levies.

Measure 9 would reduce property taxes in 1987-88 by about $400 million - an average drop of about 20%. The reduction would go up to about $835 million in 1988-89 - a drop of almost 40% from what is projected to occur under the current system.

Urban Renewal Districts

Measure 9 decreases property tax rates and values. Because the amount of revenue generated by tax increment financing in an urban renewal district depends on the tax rates in the area and the growth in value of the district, this will decrease revenue to urban renewal areas.

The amount of this decrease will differ, depending on local conditions and how state payments for homes in urban renewal districts are handled. Statewide property tax levies for urban renewal districts should decrease by about $9.4 million in 1987-88 - an drop of about 27% from projected tax revenue of about $34.6 million. In 1988-89, tax revenue would drop by about $17.8 million - a decrease of about 46% from a projected $38.6 million.

Feedback Effects

Because homeowner property taxes will be reduced by Measure 9, the cost of some state programs currently giving property tax relief will fall.

Senior Deferral

Currently some senior citizens may defer the property taxes on their home until they die or sell the home. The state advances the money and in return gets a lien on home. The State General Fund subsidizes the program. The homeowner property tax reductions in this measure would reduce the needed subsidy by about $3.6 million in 1987-88 and $6.8 million in 1988-89.

HARRP

The Homeowner and Renters Relief Program (HARRP) pays property tax refunds to homeowners and renters with incomes below $17,500.

Homeowner refunds are based on property taxes in the prior year. So the lower taxes in this measure will not save the state any money in 1987-88. But they will save the State General Fund about $1 million in 1988-89 and $1.8 million in 1989-90.

Income Taxes

Property taxes are deductible from income on both federal and state income taxes. Measure 11 reduces property taxes. So deductions for property taxes will fall, increasing both federal and state income tax revenue. Based on current law (ignoring federal tax reform), the federal increase will be about $24 million in 1987-88 and $50 million in 1988-89. The state increase will be about $11.3 million in 1987-88 and $23.7 million in 1988-89.

TAX STRUCTURE EFFECTS

Sources of State and Local Revenue

Measure 9 would change Oregon's tax structure. According to the latest data from U. S. Census Bureau (1983-84), Oregon's state and local governments combined raise 43% of their tax revenue from property taxes, 35% from personal income taxes, 4% from corporate income taxes, and 18% from other taxes.

If Measure 9 had been in effect in that year, these proportions would have been 31% from property taxes, 42% from personal income taxes, 5% from corporate income taxes, and 22% from other taxes.

Tax Rankings

Compared to other states, Oregon has high property and income taxes and no sales tax. The table below page shows Oregon's latest rankings and how Measures 11 and 12 would change them. These figures are also for 1983-84 - the latest available from the U. S. Census Bureau. Rank 1 is the highest and rank 51 is the lowest. The rankings are computed by two methods - taxes per person (per capita) and taxes as a percentage of personal income.

	Per Capita		Percent of Personal Income	
	Current System	Measure 9	Current System	Measure 9
Property tax	10th	32nd	4th	28th
Personal income tax	8th	7th	5th	5th
Sales tax	51st	51st	51st	51st
Total taxes	21st	37th	14th	40th

Tax Shift

One of the most widely discussed effects of any tax plan is the potential tax shift away from business onto households, or vice versa. Estimates of this shift can be made but caution is in order.

Caution

Estimates of this kind only indicate who initially pays the tax, not who may ultimately pay the tax. So the results may not say much about who pays in the long run.

Results

These results are calculated for 1988-89 when the limit is fully phased-in.

If you assume half of tax relief to landlords is passed through to renters, then households get about 43% of the relief. Households pay roughly $362 million less in total taxes, and businesses pay $449 million less. Under this assumption households pay approximately 65% of current total income and property taxes. Under Measure 9 households will pay about 71%.

Progressivity

Another concern raised by Measure 9 is the impact on the tax burden by income class. A tax system is called "progressive" if it places a higher burden on households with higher incomes. A tax system is "regressive" if it places a higher burden on households with lower incomes. A "proportional" system places the same burden on all income categories. Tax burden is measured by the percent of household income paid in tax. Most state and local tax systems are regressive. Studies show Oregon currently has one of the least regressive systems.

The following table compares the current tax burden by income class with the changes made by Measure 9. The table illustrates total tax burden for the major taxes - property, income and sales. The analysis includes only the share of taxes paid initially by households. Experts agree that taxes paid by business are passed to households. However they do not agree on how this shifting takes place. Also, business taxes are often shifted out-of-state and business taxes of other states are shifted into Oregon.

IMPACT OF MEASURE 9 ON TAX BURDEN BY INCOME CLASS

Tax as a Percent of Household Income

	less than $7,000	$7,000 $10,000	$10,000 $15,000	$15,000 $20,000	$20,000 $25,000	$25,000 $35,000	$35,000 $50,000	$50,000 $70,000	$70,000 and over
Current	8.87%	8.14%	6.51%	7.02%	6.79%	6.57%	6.39%	6.31%	6.25%
Measure 9	3.43%	4.77%	4.69%	5.73%	5.71%	5.66%	5.58%	5.61%	5.76%
Difference	-5.44%	-3.37%	-1.82%	-1.29%	-1.08%	-0.91%	-0.81%	-0.70%	-0.49%

The current system is slightly regressive. Measure 9 makes the system slightly progressive. The property tax is the most regressive element of the current system. Measure 9 reduces the reliance on this tax.

SIMULATED IMPACT ON LOCAL TAX LEVIES AND RATES

Two sets of tables are attached to this report which simulate the effect of Measure 9 on local property tax levies and rates.

1985-86 Tax Year

These tables are a simulation of the effect of Measure 11 if it had been in effect in the 1985-86 tax year. They are not a forecast of the effect in 1987-88 and 1988-89.

Explanation of Tables

School Levy Tables

The first set of tables shows the impact of the Measure 9 on local property tax levies. The tables are largely self-explanatory. In looking at the tables please note:

- The fixed distribution used in the simulation uses proportions from the 1985-86 tax year. Measure 9 requires use of proportions from the 1986-87 tax year in the first year.
- The current system tax levy is after offsets.
- The statewide total tax reduction in these tables is less than the total estimated for 1987-88 and 1988-89 because these tables are a simulation based on 1985-86 data.

Rate Tables

The second set of tables shows the impact of Measure 9 on the consolidated (total) tax rate for the highest valued code area in each school district.

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RESEARCH REPORT 10-86
September 11, 1986

THE IMPACT OF MEASURE 11
Homestead Exemption

AND THE IMPACT OF MEASURE 12
Income Tax Changes

On November 4, 1986, Oregonians will vote on four measures that would would make major changes in Oregon's tax system. This report is one of a series of three reports on these measures. This report contains:

- A general description of Measures 11 and 12
- A summary of the assumptions used to prepare this report
- An estimate of the statewide impact in the first year of the measures
- A simulation of the effect Measure 11 would have had on each local taxing district if it been in effect in 1985-86

Measure 11 and Measure 12 are two separate questions on the ballot. Measure 11 is a Constitutional amendment establishing a homestaed exemption. Measure 12 changes Oregon statutes to increase income taxes to pay property tax relief. Although the two measures would work together, each could stand on its own. The voters could approve one without the other. Therefore, this report describes and analyzes each measure separately as well as together.

DESCRIPTION OF MEASURE 11

Measure 11 is an initiative to amend the Oregon Constitution. It establishes a homestead exemption, requires the State to pay at least 80% of the cost of the exemption, and makes other changes to tax law.

Homestead Exemption

Measure 11 exempts one-half of the value of a homestead from property taxes, up to a maximum exemption of $25,000. For example, for a homestead currently valued at $30,000, Measure 11 exempts $15,000, leaving $15,000 taxable. For a homestead valued at $60,000, Measure 11 exempts $25,000 (the maximum), leaving $35,000 taxable.

Measure 11 applies only to homesteads. A homestead is an owner-occupied principal residence. Second homes and recreational homes do not qualify.

The exemption first applies to the 1987-88 tax year.

Growth of Maximum Exemption

The maximum $25,000 exemption applies only to the first year (1987-88). After the first year, Measure 11 raises or lowers the maximum by the change in the statewide value of existing homesteads. For example, if statewide home values go up 10% in 1988-89, then the maximum exemption would go up 10% - to $27,500.

The maximum exemption can go up or down from year to year, but cannot be less than $25,000. For example, if statewide home values go down 10% in 1988-89, the maximum exemption would remain $25,000.

Rent Relief

Measure 11 requires the Legislature to give property tax relief to renters. The relief applies only to rent paid for a principal residence. Rent for use of other property does not qualify. The relief must be equivalent to the relief given homeowners by the homestead exemption.

State Must Pay

The State General Fund must pay at least 80% of the taxes that would have been paid on homestead property made exempt by Measure 11. The State General Fund also must pay for the equivalent rent relief.

Measure 11 puts some limits on how the state can fund the exemption. The State must use at least 10%, but not more than 50%, of the net proceeds of the state lottery to help pay for the exemption. This will divert some lottery revenue from its current use - economic development.

No more than 75% of the funding can come from any one source. If one of these sources is the personal or corporate income tax, then the tax rates must be progressive - based on ability to pay.

Other Property Tax Relief Programs

The homestead exemption is in addition to any other property tax relief program. Receiving a homestead exemption does not automatically disqualify an otherwise eligible taxpayer from other tax relief programs - including the Homeowners and Renters Relief Program (HARRP), the veterans exemption, and the senior citizens deferral.

For taxpayers in the senior deferral program, Measure 11 provides that the state payment cannot reduce the property tax amount used to calculate benefits for other tax relief programs. For example, suppose a senior citizen's current property tax is $1000 and is eligible for both the senior deferral and HARRP. Under current law, this citizen can, if eligible, defer the $1000 and get a HARRP refund of up to $750, depending on income. If Measure 11 passes, the taxes on the property would be cut about in half (to $500). This would reduce the amount of taxes deferred, but the taxpayer would still get a HARRP payment of up to $750, depending on income.

Other Provisions

True Cash Value Used in Formulas

Current state law uses true cash value in a number of formulas that give state aid to local governments and that limit the amount of bonded debt a government can issue. Measure 11 says that the homestead exemption shall not reduce the true cash values used in these formulas, except that the Legislature may order use of the reduced values in formulas giving aid to local governments that are not schools.

Value of Owner-Occupied Single Family Homes

Measure 11 limits the value of a single family home to its value as a residence. For example, if a home is located on commercially-zoned or commercially attractive property, it cannot be valued at its more valuable use. It must be valued as a home. This applies only to owner-occupied single family residences. Renter-occupied homes do not qualify.

No Sales Tax Except by Initiative Petition

Measure 11 prohibits the Legislature from passing a sales tax or referring a sales tax to the voters, if the proceeds of the tax would be used to defray the expenses of the state.

Conflicts with Other Measures

If Measure 11 and any other property tax relief measure pass, Measure 11 allows only the one receiving the most "yes" votes to take effect and repeals the others. Because the other measures on the ballot do not have similar language, the legal effect of this provision is subject to some debate.

HOW A HOMESTEAD EXEMPTION WORKS

This section illustrates by example the effect of a homestead exemption on a single home, on different homes relative to each other, and on local taxing districts. This section also illustrates the effect of different levels of state funding of a homestead exemption.

One Home

For the early examples, assume that the state is paying 100% of the tax not collected from homes due to the homestead exemption. The table below shows the effect of a $25,000 homestead exemption on a typical home.

	Current Law	Homestead Exemption
Home Value	$60,000	$60,000
less Exemption	-0	-25,000
Taxable Value	60,000	35,000
times Tax Rate	$20 per 1000	$20 per $1000
Tax on Homestead	$1200	$700

The $25,000 exemption reduces the tax on this home by $500.

Two Homes with Same Value but Different Tax Rates

Again, assume the state is paying 100% of the taxes not collected due to the homestead exemption. The table below shows the effect of a $25,000 homestead exemption on two homes in areas with two different tax rates.

	Home A	Home B
Current Law		
Assessed value	$60,000	$60,000
Tax rate	$20 per $1000	$10 per $1000
Tax	$1200	$600
Homestead Exemption		
True cash value	$60,000	$60,000
Exemption	-25,000	-25,000
Assessed value	35,000	35,000
Tax rate	$20 per $1000	$10 per $1000
Tax	$700	$350
Tax Savings	$500	$250
Percent Relief	42%	42%

Both homes get the same percentage relief. The home currently paying higher taxes gets more dollars of relief.

Four Homes with Same Tax Rate but Different Values

Assume the state is still paying 100% of the taxes not collected due to the homestead exemption. The table below shows the effect of a homestead exemption on homes with different assessed value. The assumed homestead exemption is the same as Measure 11 - one-half of value up to a maximum exemption of $25,000.

	Home A	Home B	Home C	Home D
Current Law				
Assessed value	$25,000	$50,000	$75,000	$100,000
Tax rate	$20 per $1000	$20 per $1000	$20 per $1000	$20 per $1000
Tax	$500	$1000	$1500	$2000
Homestead Exemption				
True cash value	$25,000	$50,000	$75,000	$100,000
Exemption	-12,500	-25,000	-25,000	-25,000
Assessed value	12,500	25,000	50,000	75,000
Tax rate	$20 per $1000	$20 per $1000	$20 per $1000	$20 per $1000
Tax	$250	$500	$1000	$1500
Tax Savings	$250	$500	$500	$500
Percent Relief	50%	50%	33%	25%

Homes at or below the maximum $25,000 exemption (home values at or below $50,000) get the same percentage relief (50%). Homes above the maximum get the same dollar relief, which means the percentage relief falls as home value rises.

If State Does Not Pay 100%

Finally, assume the state does not make up the taxes not collected due to the homestead exemption. So who does? Do local taxing districts lose revenue?

No, local taxing districts do not lose revenue. Under Oregon law, voters approve property tax levies in dollar amounts. For example, voters might approve a levy of $1 million for XYZ School District. This approval allows XYZ School District to charge whatever tax rate it takes to raise $1 million in revenue. So, if some property is exempted from tax and the state does not make up the difference, the tax rate will automatically increase to get until $1 million in revenue can be raised. This means that property still taxable will have to pay a higher rate - the tax is shifted onto other property.

For example, assume the four houses in the previous example are the only four homes in a tiny school district. Also assume that there is $350,000 in business property in the district, the voters have approved a property tax levy of $6,000, and the state will pay 80% of the cost of the exemption.

	Current Law	Homestead Exemption
Taxable Value in District		
Homesteads	$250,000	$250,000
less Exemption	-0	-87,500
Taxable homesteads	250,000	162,500
plus Other property	350,000	350,000
Total	600,000	512,500
Calculation of Tax Rate		
Voter approved levy	$6,000	$6,000
less State payment	-0	-700
Net levy	6,000	5,300
divide by Total value	600,000	512,500
District tax rate	$10 per $1000	$10.34 per $1000

The full cost of the exemption is $875 ($87,500 exempt value times the $10 per $1000 tax rate. The State paid only $700 (80% of $875), so the tax rate automatically rose to make up the difference. The table below shows how this shifts the tax burden.

	Current Law				Homestead Exemption			
	Taxable Value	Tax Rate	Total Tax	Tax Share	Taxable Value	Tax Rate	Total Tax	Tax Share
Homesteads	250,000	$10	2,500	40%	162,500	$10.34	1,680	32%
Other property	350,000	$10	3,500	60%	350,000	$10.34	3,620	68%
Total	600,000		6,000		512,500		5,300	

Some of the unfunded tax shifted back on homes - the tax rate went up on the home value remaining after the exemption. But most of the tax shifted onto other property - their total taxes went up $120 and their share of the total levy rose from 60% to 68%.

ASSUMPTIONS AND METHODLOGY

80% State Funding

Measure 11 requires the state to pay at least 80% of the taxes that would have been paid on the exempted portion of each homestead property. The state could pay more than 80%. This analysis assumes the state would pay 80%.

Renter Equivalence

This analysis assumes equivalence means that renters get a refund of the portion of their rent that represents payment of property taxes equal to the average percentage property tax relief for homeowners. This analysis also assumes that 17% of rent goes to pay property taxes. From the revenue summary in the next section, the average percentage property tax relief for homeowners is 39.7%. So renters should get a refund equal to about 6.7% of rent (39.7% times 17%).

Federal Tax Reform

This analysis assumes current federal and state income tax law. There is not enough data to include the effects of the proposed federal tax reform in this analysis. Inclusion of these effects would not significantly alter the results.

Normal Property Tax Growth

The projected impacts assume property tax levies would normally grow by just over 6% a year between now and 1987-88. This assumption is slower than the long term average growth rate but slightly faster than the most recent two years.

PROJECTED REVENUE IMPACT OF MEASURE 11

Homeowner and Renter Relief

Full funding of the homestead exemption would cost the State General Fund about $315 million in 1987-88. For 80% funding, the cost in 1987-88 is $252 million.

The equivalent rent relief will cost about $58 million in 1987-88.

Lottery Revenue

Measure 11 dedicates from 10% to 50% of lottery revenue to help fund the homestead exemption. Based on the latest estimate of the State Lottery Commission, the 10%-50% range will produce from $3.6 million to $15 million for the homestead exemption in 1987-88. This means a reduction by the same amounts for the economic development programs supported by the state lottery.

Property Tax

The table below summarizes the projected statewide property tax changes in 1987-88 from the homestead exemption under the assumptions described earlier in this report.

PROJECTED PROPERTY TAX REVENUE

1987-88

	Homeowners	Other Property	Total
Current System			
Total value	$30,610	$53,025	$83,635
Total levies	754.1	1,273.0	2,027.1
Average tax rate	$24.64	$24.01	$24.24
Measure 11			
True cash value	30,610	53,025	83,635
less Exemption	-12,787	-0	-12,787
Taxable value	17,823	53,025	70,848
Levies after payment	454.9	1,320.2	1,775.1
Average tax rate	$25.52	$24.90	$25.06
Total change in taxes	-$299.2	+47.2	-252.0
Average percentage change	-39.7%	+3.7%	

Levy figures in millions.
Figures do not include urban renewal levies.

The state payment of $252 million equals the drop in levies, so local taxing districts do not lose any revenue. However the state payment does not cover the full cost of the exemption. The net effect is a $47 million increase (about 4%) in taxes on other (non-homestead) property. Homeowners get about a 40% drop in taxes, even though the tax rate goes up.

Urban Renewal Districts

Under 80% funding, Measure 11 will increase property tax rates. Because the amount of revenue generated by tax increment financing in an urban renewal district depends in part on the tax rates in the area, this will increase revenue to urban renewal areas.

The amount of this increase will differ, depending on local conditions and how state payments for homes in urban renewal districts are handled. Statewide property tax levies for urban renewal districts should increase about $1.3 million in 1987-88 - an increase of about 3.5%.

Feedback Effects

Because homeowner property taxes will be reduced by Measure 11, the cost of some state programs currently giving property tax relief will fall.

Senior Deferral

Currently some senior citizens may defer the property taxes on their home until they die or sell the home. The state advances the money and in return gets a lien on home. The State General Fund subsidizes the program. The homeowner property tax reductions in this measure would reduce the needed subsidy by about $7.2 million in 1987-88.

HARRP

The Homeowner and Renters Relief Program (HARRP) pays property tax refunds to homeowners and renters with incomes below $17,500.

Homeowner refunds are based on property taxes in the prior year. So the lower taxes in this measure will not save the state any money in 1987-88. But they will save the State General Fund about $2.6 million in 1988-89.

The renter relief in Measure 11 will reduce the cost of HARRP renter payments by about $3.3 million in 1987-88.

Income Taxes

Property taxes are deductible from income on both federal and state income taxes. Measure 11 reduces property taxes. So deductions for property taxes will fall, increasing both federal and state income tax revenue. Based on current law (ignoring federal tax reform), the federal increase for 1987-88 will be about $47 million and the state increase about $18.8 million.

Summary of Impact on State

SUMMARY OF IMPACT OF MEASURE 11 ON THE STATE

1987-88

Measure 11 costs	
Homeowner state payment	$252.0 million
Rent relief	58.0
Total	310.0
Feedback effects	
Senior deferral savings	-7.2
HARRP savings	-3.3
Income tax	-18.8
Net cost	280.7
Lottery funds available	-3.6 to -18.0
Net to finance	262.7 to 277.1

DESCRIPTION OF MEASURE 12

Measure 12 amends Oregon statutory laws. It is not a Constitutional amendment. Measure 12 increases Oregon's personal and corporate income taxes and dedicates the proceeds to property tax relief.

Personal Income Tax Rates

Measure 12 changes the personal income tax rates and brackets. It reduces the tax rate for the lowest income bracket from 4% to zero and increases the highest rate from 10% to 15%. The table below shows the current and proposed rates and brackets.

SINGLE RETURN

Current: Taxable Income Bracket	Current: Tax Rate	Measure 12: Taxable Income Bracket	Measure 12: Tax Rate
Not over $500	4%	Not over $500	0%
$ 501-1,000	5%	$ 501- 1,000	2%
$1,001-2,000	6%	$ 1,001- 2,500	5%
$2,001-3,000	7%	$ 2,501-11,000	10%
$3,001-4,000	8%	Over $11,000	15%
$4,001-5,000	9%		
Over $5,000	10%		

JOINT RETURN

Current: Taxable Income Bracket	Current: Tax Rate	Measure 12: Taxable Income Bracket	Measure 12: Tax Rate
Not over $1,000	4%	Not over $1,000	0%
$ 1,001- 2,000	5%	$ 1,001- 2,000	2%
$ 2,001- 4,000	6%	$ 2,001- 5,000	5%
$ 4,001- 6,000	7%	$ 5,001-22,000	10%
$ 6,001- 8,000	8%	Over $22,000	15%
$ 8,001-10,000	9%		
Over $10,000	10%		

Federal Tax Deduction

Current law allows a taxpayer to deduct federal income taxes paid from income when calculating the state personal income income tax. Current law limits this deduction to $7,000. Measure 12 reduces the limit to $5,000. This will increase state taxes for taxpayers with federal taxes over $5,000.

Corporate Income Tax Rates

Measure 12 changes the current flat 7.5% corporate tax rate to a system of corporate tax brackets with increasing rates. Every corporation would pay a lower rate on the first $50,000 of taxable income, and a higher rate on all taxable income above $75,000. The table below summarizes the current and proposed rates and brackets.

CORPORATE TAX RATES

Taxable Income Bracket	Current Rate	Measure 12 Rate
Not over $25,000	7.5%	5.5%
$ 25,001- 50,000	7.5%	6.5%
$ 50,001- 75,000	7.5%	7.5%
$ 75,001-100,000	7.5%	8.5%
$100,001-500,000	7.5%	9.5%
Over $500,000	7.5%	10.5%

Depreciation

Measure 12 changes the method of calculating depreciation of business property. Depreciation is a deduction from income to account for wear, tear, obsolesence, and exhaustion of property used to make income.

The state currently uses the federal Accelerated Cost Recovery System (ACRS) method for eligible property. Measure 12 forbids use of ACRS, and reverts back to the depreciation method used prior to ACRS. The prior method generally allows for slower depreciation which reduces depreciation expense and increases taxable income. The prior method would apply only to property placed in service in tax years beginning on or after January 1, 1987. The depreciation change applies to both personal and corporate income taxes.

Revenue Dedication

Measure 12 dedicates the increase in income taxes to homeowner and renter property tax relief. Personal and corporate income tax revenue would have to be estimated as though current law existed and also estimated with the Measure 12 modifications. The difference would be available for property tax relief. The money could be used to fund a homestead exemption or other types of homeowner and renter property tax relief.

Effective Date

Measure 12's income tax changes apply to tax years beginning on or after January 1, 1987.

PROJECTED REVENUE IMPACT OF MEASURE 12

Personal Income Tax

Measure 12 will increase personal income tax revenue by approximately $255 million in 1987-88. The change in the rates, federal tax deduction, and depreciation allowances interact so that the sum of the impact of each separately does not equal the impact of all of them together. Roughly speaking, 86% of revenue comes from the rate changes, 7% from lowering the federal tax deduction, 1.5% from ACRS depreciation, and 5.5% from feedback effects of dedicating the revenue to property tax relief.

Corporate Income Tax

Measure 12 will increase corporate tax revenue by approximately $38 million. About 80% can be attributed to the rate change and 20% to the change in depreciation allowances.

Summary

SUMMARY OF IMPACT OF MEASURE 12

1987-88

Personal income tax	$255 million
Corporate income taxes	$38 million
Total revenue increase	$293 million

Typical Taxpayer Examples

Below are examples of typical personal income taxpayers. The tables show the effect of the Measure 12 changes in personal income tax rates and the federal tax deduction. The federal numbers are based on current law. The effect of proposed federal tax reform is not included.

LEGISLATIVE REVENUE OFFICE
1987 CURRENT LAW COMPARED TO MEASURE 12
TYPICAL TAXPAYER EXAMPLES

SINGLE RETURN
1 EXEMPTION

AGI	---CURRENT--- STATE	FEDERAL	---PROPOSED--- STATE	FEDERAL	-------DIFFERENCE------- STATE	FEDERAL	TOTAL
2,500	0	0	0	0	0	0	0
5,000	152	152	128	152	(24)	0	(24)
7,500	355	484	345	484	(10)	0	(10)
10,000	543	851	533	851	(10)	0	(10)
12,500	733	1,247	723	1,247	(10)	0	(10)
15,000	939	1,687	970	1,687	31	0	31
17,500	1,140	2,181	1,271	2,181	131	0	131
20,000	1,333	2,753	1,560	2,753	227	0	227
25,000	1,461	3,007	1,763	2,938	302	(69)	232
30,000	1,798	4,074	2,277	3,950	479	(125)	354
40,000	2,415	6,367	3,388	6,064	974	(303)	671
50,000	3,159	8,930	4,599	8,383	1,441	(547)	893
75,000	5,153	16,214	7,591	15,190	2,438	(1,024)	1,414
100,000	7,131	24,542	10,558	22,897	3,427	(1,645)	1,782
250,000	19,952	81,942	29,791	77,024	9,839	(4,919)	4,920

JOINT RETURN
2 EXEMPTIONS

AGI	---CURRENT--- STATE	FEDERAL	---PROPOSED--- STATE	FEDERAL	-------DIFFERENCE------- STATE	FEDERAL	TOTAL
2,500	0	0	0	0	0	0	0
5,000	33	0	0	0	(33)	0	(33)
7,500	198	172	124	172	(74)	0	(74)
10,000	238	464	173	464	(65)	0	(65)
12,500	376	803	341	803	(36)	0	(36)
15,000	541	1,089	521	1,091	(20)	3	(17)
17,500	727	1,390	707	1,393	(20)	3	(17)
20,000	916	1,714	896	1,717	(20)	3	(17)
25,000	1,268	2,377	1,247	2,380	(20)	4	(17)
30,000	1,643	3,171	1,623	3,175	(20)	4	(16)
40,000	2,359	5,007	2,672	4,935	312	(72)	241
50,000	2,979	7,026	3,890	6,752	911	(273)	638
75,000	5,076	13,035	7,036	12,369	1,960	(666)	1,294
100,000	7,206	20,044	10,232	18,894	3,026	(1,150)	1,876
250,000	20,183	73,271	29,698	68,514	9,515	(4,757)	4,759

JOINT RETURN
4 EXEMPTIONS

AGI	---CURRENT--- STATE	FEDERAL	---PROPOSED--- STATE	FEDERAL	-------DIFFERENCE------- STATE	FEDERAL	TOTAL
2,500	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0
7,500	38	0	0	0	(38)	0	(38)
10,000	207	205	172	205	(35)	0	(35)
12,500	392	500	372	500	(20)	0	(20)
15,000	608	845	588	845	(20)	0	(20)
17,500	517	979	497	981	(20)	3	(17)
20,000	684	1,227	663	1,230	(20)	3	(17)
25,000	1,084	1,914	1,064	1,917	(20)	3	(17)
30,000	1,463	2,662	1,443	2,666	(20)	4	(17)
40,000	2,157	4,326	2,455	4,257	298	(68)	229
50,000	2,779	6,161	3,551	5,960	773	(201)	572
75,000	4,658	11,599	6,496	10,974	1,838	(625)	1,213
100,000	6,635	17,916	9,462	16,842	2,827	(1,074)	1,753
250,000	19,018	67,796	28,037	63,359	9,019	(4,437)	4,582

PROJECTED REVENUE IMPACT OF MEASURE 11 AND MEASURE 12 TOGETHER

The following table summarizes the impact of the Measures 11 and 12 together. The income tax revenue provided by the Measure 12 changes is less than the amount reported separately since the feedback effect of the reduced property taxes is included in the effect of Measure 11.

SUMMARY OF IMPACT OF MEASURE 11 AND MEASURE 12

1987-88

Measure 11 costs	
Homeowner state payment	$252.0 million
Rent relief	58.0
Total	310.0
Feedback effects	
Senior deferral savings	-7.2
HARRP savings	-3.3
Income tax	-18.8
Net cost	280.7
Measure 12 revenues	
Personal income tax	240.2
Corporate income tax	38.0
Total revenue	278.2
Net before lottery funds	2.5
Lottery funds available	3.6 to 18.0

According to the table, Measure 12 produces enough revenue to pay at least the 80% state payment and the rent relief required by Measure 11. However, it may violate Measure 11's requirement that not more than 75% of the funds needed come from any one tax source. Measure 12 produces $240.2 million (not counting feedback effects) from the personal income tax, whereas 75% of $310 million is $232.5 million.

TAX STRUCTURE EFFECTS

This section analyzes the tax structure effects of Measure 11 alone and Measure 11 in combination with Measure 12. Measure 11 by itself decreases property taxes without raising other taxes - thus decreasing the total tax burden. Measure 11 with Measure 12 decreases property taxes and raises income taxes to compensate - keeping the total tax burden about the same.

Sources of State and Local Revenue

A homestead exemption would change Oregon's tax structure. According to the latest data from U. S. Census Bureau (1983-84), Oregon's state and local governments combined raise 43% of their tax revenue from property taxes, 35% from personal income taxes, 4% from corporate income taxes, and 18% from other taxes.

If Measure 11 alone had been in effect in that year, these proportions would have been 40% from property taxes, 37% from personal income taxes, 4% from corporate income taxes, and 19% from other taxes.

For Measure 11 with Measure 12, they would have been 37% from property taxes, 40% from personal income taxes, 5% from corporate income taxes, and 18% from other taxes.

Tax Rankings

Compared to other states, Oregon has high property and income taxes and no sales tax. The table below page shows Oregon's latest rankings and how Measures 11 and 12 would change them. These figures are also for 1983-84 - the latest available from the U. S. Census Bureau. Rank 1 is the highest and rank 51 is the lowest. The rankings are computed by two methods - taxes per person (per capita) and taxes as a percentage of personal income.

	Per Capita			Percent of Personal Income		
	Current System	Measure 11	Measure 11+12	Current System	Measure 11	Measure 11+12
Property tax	10th	15th	15th	4th	10th	10th
Personal income tax	8th	7th	6th	5th	5th	1st
Sales tax	51st	51st	51st	51st	51st	51st
Total taxes	21st	26th	19th	14th	20th	14th

Tax Shifts

One of the most widely discussed effects of any tax plan is the potential tax shift away from business onto households, or vice versa.

Measure 11

Measure 11 provides substantial relief for households and none for business. Households get net relief of $335 million through a combination of homeowner property tax relief and direct renter payments. Business pays an additional $47.2 million. Assuming that one-half of property taxes on landlords passes through to renters, the current household share of total income and property taxes is 65%. This drops to 60% under Measure 11. The business share increases from 35% to 40%.

Measures 11 and 12

Adding the income tax changes of Measure 12 to the impact of Measure 11 reduces the net household relief to $95 million. The additional tax paid by business increases to $85 million. This shift is small - about 2.2% of total income, property, and sales taxes.

Progressivity

Another concern raised by Measure 11 and 12 is the impact on the tax burden by income class. A tax system is called "progressive" if it places a higher burden on households with higher incomes. A tax system is "regressive" if it places a higher burden on households with lower incomes. A "proportional" system places the same burden on all income categories. Tax burden is measured by the percent of household income paid in tax. Most state and local tax systems are regressive. Studies show Oregon currently has one of the least regressive systems.

The following table compares the current tax burden by income class with the changes made by Measure 11 and Measures 11 and 12 together. The table illustrates total tax burden for the major taxes - property, income and sales. The analysis includes only the share of taxes paid initially by households. Experts agree that taxes paid by business are passed to households. However they do not agree on how this shifting takes place. Also, business taxes are often shifted out-of-state and business taxes of other states are shifted into Oregon.

IMPACT OF MEASURES 11 AND 12 ON TAX BURDEN BY INCOME CLASS

Tax as a Percent of Household Income

	less than $7,000	$7,000 $10,000	$10,000 $15,000	$15,000 $20,000	$20,000 $25,000	$25,000 $35,000	$35,000 $50,000	$50,000 $70,000	$70,000 and over
Current	8.87%	8.14%	6.51%	7.02%	6.79%	6.57%	6.39%	6.31%	6.25%
Measure 11	2.55%	4.41%	4.49%	5.59%	5.59%	5.55%	5.53%	5.66%	5.88%
Ch. from current	-6.32%	-3.73%	-2.02%	-1.44%	-1.19%	-1.02%	-0.86%	-0.66%	-0.37%
Measure 11 & 12	2.33%	4.25%	4.39%	5.68%	5.84%	5.87%	6.23%	7.00%	7.85%
Ch. from current	-6.54%	-3.89%	-2.12%	-1.34%	-0.95%	-0.70%	-0.16%	0.69%	1.60%

The current system is slightly regressive. Measure 11 alone makes the system slightly progessive. The property tax is the most regressive element of the current system. Measure 11 reduces the reliance on this tax. Measures 11 and 12 together increase the progressivity of the system even more. Measure 12 increases the progressivity of the income tax. The measures together increase reliance on this more progressive tax.

SIMULATED IMPACT ON LOCAL TAX LEVIES AND RATES

Two sets of tables are attached to this report which simulate the effect of Measure 11 on local property tax levies and rates.

<u>1985-86 Tax Year</u>

These tables are a simulation of the effect of Measure 11 if it had been in effect in the 1985-86 tax year. They are not a forecast of the effect in 1987-88.

<u>Explanation of Tables</u>

School Levy Tables

The first set of tables shows the impact of the homestead exemption on local property tax levies. The tables are largely self-explanatory. In looking at the tables please note:

- The taxing districts do not lose revenue. The Measure 11 net levy plus the state payment equals the current levy. However, because the state payment does not cover the full cost of the exemption, the tax rate for each district increases.

- The current system tax levy is after offsets.
- The statewide total state payment in these tables is less than the total estimated for 1987-88 because these tables are a simulation based on 1985-86 data. So we used a state payment estimate appropriate for 1985-86.

Rate Tables

The second set of tables shows the impact of the homestead exemption on the consolidated (total) tax rate for the highest valued code area in each school district. Although the tax rate is up in every case, homeowners will get lower taxes due to the homestead exemption. The table shows how much for four typical home values. Businesses get no exemption, so the table shows how much the taxes would go up on a $100,000 business property.

STAFF REPORT

Agenda Item No. 7.2

Meeting Date Oct. 9, 1986

CONSIDERATION OF RESOLUTION NO. 86-692, FOR THE PURPOSE OF ESTABLISHING OPPOSITION TO BALLOT MEASURE NOS. 9 AND 11

Date: October 1, 1986

Presented By: Donald Carlson

FACTUAL BACKGROUND AND ANALYSIS

The purpose of Resolution No. 86-692 is to establish the position of the Metro Council in opposition to Ballot Measure Nos. 9 (1.5 Percent Property Tax Limitation) and 11 (Homestead Exemption). Attached for Council consideration is a memo dated October 1, 1986, titled "Impact of Ballot Measures 9 and 11 on the Metropolitan Service District."

EXECUTIVE OFFICER'S RECOMMENDATION

The Executive Officer recommends adoption of Resolution No. 86-692.

DEC:amn

METROPOLITAN SERVICE DISTRICT

SUMMARY OF IMPACT OF BALLOT MEASURES 9 AND 11

MEASURE 9

(1.5 Percent Property Tax Limitation)

ZOO TAX LEVY

- High probability of being cut out of 1.5% ($15.00/$1,000 TCV Allocation)
- If so, Metro levies must "override" or be "in excess" of 1.5% limitation
- Cannot submit levy until May 1987 (along with all other tax measures) and according to A.G. not until 1987 Legislature passes levy enabling legislation
- Without new Zoo levy approval, Zoo operations will be severely impacted (50% of operations funded from tax levy)

CONVENTION CENTER/$65 MILLION BOND ISSUE

- A serious question about ability to sell bonds after December 3, 1986 (assuming bond measure passes on November 4) without another public vote on tax levy to pay debt service
- $15 million state appropriation -- serious question about ability to get funds since state will be preoccupied in meeting school and local government revenue shortfall (projected at $402 million in 1987-88 and $835 million in 1988-89)
- $5 million LID revenue -- cannot sell Bancroft (G.O.) bonds without a vote of entire city. Other debt instruments could be used but at higher interest costs.

INTERGOVERNMENTAL RESOURCE CENTER

- Local Government Dues (currently $.51/capita) quite probably reduced for FY 1987-88 and FY 1988-89 because of local government revenue shortfall

SOLID WASTE

- No direct impact since transfer station, landfill and A.T. projects will be funded by revenue bonds which are backed up by solid waste fee system
- Indirect impact is higher interest costs if District has severe financial problems with other functions (credit rating will suffer)

MEASURE 11

(Homestead Exemption)

- No impact on ability to levy taxes authorized by voters
- Same impact on state appropriation for Convention Center (assumes BM 12 does not pass and local government shortfall of $310 million in 1987-88 is unfunded and must be made up from existing state revenue)

DEC:amn
10/07/86-2

STAFF REPORT

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DEC:amn

an additional, estimated expense of about $471,000 in FY 1986-87. Adoption of Resolution No. 86-691 would authorize the transfer of $471,000 from the Solid Waste Operating Contingency Fund to the St. Johns Landfill program to fund the project.

Presiding Officer Waker opened the public hearing on the Resolution. There being no testimony, he closed the public hearing.

Motion: Councilor Gardner moved the Resolution be adopted and Councilor Kirkpatrick seconded the motion.

Vote: A vote on the motion resulted in:

Ayes: Councilors Collier, Cooper, Frewing, Gardner, Hansen, Kelley, Kirkpatrick, Ragsdale, Van Bergen and Waker

Absent: Councilors DeJardin and Kafoury

The motion carried and Resolution No. 86-691 was adopted.

7.2 Resolution No. 86-692, for the Purpose of Establishing Opposition to Ballot Measure Nos. 9 and 11

Donald Carlson, Deputy Executive Officer, outlined the proposed impact of Ballot Measure Nos. 9 and 11 to the Metropolitan Service District as discussed in his memorandum to Councilors dated October 1, 1986, that was included in the agenda packet.

Councilor Collier asked why Ballot Measure No. 12 had not been addressed in Resolution No. 86-692. Mr. Carlson said it was not included because the Ballot Measure was not harmful to Metro's interests.

A discussion followed about whether the Council should take a position opposing Ballot Measure No. 12. Presiding Officer Waker questioned the wisdom of taking a position on a ballot measure that was not directly related to Metro's interests.

Councilor Van Bergen asked counsel to comment on the propriety of the Council taking a position to ensorse or oppose specific issues on the ballot. Eleanore Baxendale, General Counsel, advised it was within the Council's authority to take a position on any issue directly related to Metro's concerns.

Councilor Gardner said he would have difficulty voting for Resolution No. 86-692 because the probable impact on Ballot Measure No. 11 was very speculative. He opposed combining the issues of the two ballot measure in one Resolution.

Main Motion: Councilor Kirkpatrick moved to adopt Resolution No. 86-692 and Councilor Collier seconded the motion.

Motion to Amend: Councilor Hansen moved to amend the main motion by removing any reference to Ballot Measure No. 11 from the Resolution. Councilor Gardner seconded the motion.

Vote on Motion to Amend: A vote resulted in:

Ayes: Councilors Frewing, Gardner, Hansen

Nays: Councilors Collier, Kirkpatrick, Ragsdale, Van Bergen and Waker

Absent: Councilors Cooper, DeJardin, Kafoury and Kelley

The motion failed.

Vote on Main Motion: A vote resulted in:

Ayes: Councilors Collier, Frewing, Kirkpatrick, Ragsdale, Van Bergen and Waker

Nays: Councilors Gardner and Hansen

Absent: Councilors Cooper, DeJardin, Kafoury and Kelley

The motion carried and Resolution No. 86-692 was adopted.

EXECUTIVE SESSION

At 7:05 p.m., Presiding Officer Waker called an Executive Session of the Council under the authority of ORS 192.660(1)(e) to discuss real property negotiations for acquiring the 209th/TV Highway Site for the west transfer and recycling center. Councilors present included Collier, Cooper, Frewing, Gardner, Hansen, Kirkpatrick, Ragsdale, Van Bergen and Waker. Staff present included Dan Durig, Dave Luneke, Doug Drennen, Vickie Rocker, Eleanore Baxendale, Rick Gustafson and Don Carlson. The Presiding Officer called the meeting back into regular session at 7:45 p.m.

WEST TRANSFER AND RECYCLING CENTER

Motion: Councilor Van Bergen moved to direct staff to make a specific property settlement offer to Intel for purchase of the 209th/TV Highway Site. Councilor Cooper seconded the motion.