4-14-80 83396 10 6

Oregon Local Public Issues

Ballot Measure 5 and Oregon's Tax System

What is Ballot Measure 5?

Measure 5 is a referendum on the ballot at the May 20, 1980, primary election. Voters are being asked whether a number of changes in Oregon's tax system made by the 1979 state legislature are to be continued beyond January 1, 1981.

What are the main provisions of Measure 5?

Measure 5 would continue the following:

- **Partial state payment of homeowner property taxes and renter relief.** If Measure 5 is approved, the State would continue to pay up to 30 percent of property taxes on owner-occupied residences (up to a maximum of $800), and provide equivalent relief to renters (up to a maximum of $400). The State would pay 30 percent of the taxes on residences, excluding:
  (a) taxes used to repay bond principal and interest;
  (b) new serial levies used partly or entirely to pay for construction of public buildings or land; and
  (c) that portion of the operating levies outside the tax base in excess of prior operating levies adjusted for inflation and local population growth.
- **Increased HARRP payments.** Measure 5 continues the increased amounts of tax relief provided to homeowners ($750 maximum) and renters ($375 maximum) under the Homeowner and Renter Relief Program (HARRP), and the new maximum income of eligible recipients ($17,499).
- **Assessment limitation and split assessment roll.** Approval of Measure 5 would mean continuation of a new system of property assessment in which there are two classes of property (owner-occupied principal residences and all other property), and in which the growth of assessed value in each class is restricted to a statewide annual average of 5 percent.
- **A and B ballots in local elections.** If Measure 5 is approved, local governments would be required to continue submitting separate levy measures—A and B ballots—to voters under certain conditions. Levies within the *adjusted levy* (generally the previous year's operating levies adjusted for inflation and local government growth), but outside the tax base and previously approved serial levies, would continue to be submitted for voter approval on an A ballot, which clearly states that levies approved on this ballot are partially financed by the State. Levies in excess of the adjusted levy and outside the tax base, and new serial levies for capital construction purposes, would continue to be submitted on a B ballot, which indicates that the State will not fund a portion of any taxes approved on that ballot.
- **Reduction in state personal income taxes.** Under Measure 5, the State would retain the increased personal exemption of $1,000 used in calculating state income taxes, the indexing of the exemption to the Portland Consumer Price Index, and the increased maximum allowable deduction of $7,000 for federal income taxes.
- **Limitation of state spending and surplus fund.** With Measure 5, future growth in state spending for general governmental purposes would be limited to the growth in state personal income. The State would be required to return the entire surplus to taxpayers if actual revenues exceed expected revenues by 2 percent or more.

The first four provisions of Measure 5 listed above mainly affect the local property taxes you will pay. The last two provisions affect the state income taxes you will pay.

How would Measure 5 affect future property taxes paid by homeowners?

Except in unusual cases, future homeowner property tax payments would be lower with Measure 5 than without it. A partial state payment of up to 30 percent of the taxes would continue to be made to the County and subtracted from the bill before it is sent to the taxpayer. The maximum payment would be $800. Because the partial state payment does not apply to certain levies, the partial state payment often would be somewhat less than 30 percent of the total tax bill.

In addition, homeowners eligible for HARRP payments would receive larger refunds with Measure 5 than without it. Furthermore, as long as market values of existing property continue to increase more than 5 percent per year—and as long as the market values of existing homesteads continue to increase more each year than the values of other existing property—future homeowner tax bills would be somewhat lower with Measure 5 than without it, because of the assessment limit and split assessment roll.

Statements about the effects of Measure 5 on future homeowner tax bills need to be qualified slightly. Tax bills depend on the size of the local government tax levies. The passage of Measure 5 might or might not affect the size of future tax levies. Local government and voter response to the partial state payment and A and B ballot provisions of the measure would determine this. Local governments might levy taxes within the A-ballot levy (the adjusted levy), recognizing that homeowners would have to pay the entire bill on levies higher than the adjusted levy. Measure 5 might induce governments to propose tax levies at the limit—to take full advantage of state

tax relief. Or, because the State would pay 30 percent of any levy within the tax base, the measure might induce local governments to seek higher tax bases rather than submit A and B ballots for 1-year levies.

With Measure 5, there is an incentive for voters who have approved (or would approve) both A and B levies to approve new tax bases for local governments.

How would Ballot Measure 5 affect renters?

In the future, renters would receive higher refunds with Measure 5 than without it. All renters (regardless of income) would continue to be eligible for a state payment of 4.7 percent of their annual rent, up to a maximum of $400.

In addition, renters with incomes of less than $17,500 would continue to receive higher HARRP payments under Measure 5.

How would Measure 5 affect state and federal personal income taxes in future years?

Measure 5 contains provisions that would affect taxable income for state personal income tax purposes.

To the extent that property taxes are reduced under Measure 5, and because property taxes are deductible from state income taxes, those homeowners who itemize deductions would have less property tax to deduct—and hence higher taxable incomes in future years. However, because of the increased personal exemption of $1,000, taxable income for all taxpayers would be reduced. Furthermore, because of the increased maximum allowable federal income tax that may be deducted from state taxes, those taxpayers who itemize deductions and who qualify for these provisions would have further reductions in taxable state personal income. If [illegible] inflation continues, the provision that the personal exemption be indexed to the Portland Consumer Price Index would ensure continued reductions in taxable state personal income, thereby slowing the rate at which taxpayers move into higher tax brackets.

It is expected that future state personal income tax payments generally would be lower with Measure 5 than they would be without it.

In addition, if actual state general fund revenues were to exceed anticipated revenues by 2 percent or more, the full amount of the surplus would be returned to Oregon taxpayers in proportion to their income tax payments.

Because state income and local property taxes are deductible from federal income taxes—and to the extent that both state income and local property taxes would be lower under Measure 5—federal income taxes would be higher with Measure 5 than they would be without it for those who itemize deductions.

How does the assessment limit and split assessment roll work?

Under the new law, the assessment roll is split into two classes: *homesteads* (owner-occupied principal residences) and *all other property* (AOP). The total assessed value of existing property in each class is allowed to increase only 5 percent per year.

The split assessment roll was created to stop the shift in the property tax burden which had been occurring historically from AOP (commercial, industrial, agricultural, etc.) to homesteads. This occurred because existing homesteads were increasing in value faster than all other property. During 1977, the market value of existing homesteads increased 17.5 percent and that of existing AOP increased only 11.5 percent. The next year, market value of existing homesteads increased 25.3 percent, while that of existing AOP increased only 16.4 percent. The split assessment roll and the provisions that the value of existing property in both classes is limited to a maximum growth of 5 percent per year ensures that, in the future, shifts in the property tax burden between property classes will not occur for this same reason.

Market value of existing real property in Oregon increased much more than 5 percent during 1979: the market value of existing homesteads increased by 24.6 percent, and the market value of existing AOP increased by 19.8 percent. In order to keep 1980 assessed values within the 5 percent growth limit, the 1980 market values of all homesteads are being multiplied by .842 (124.6 x .842 = 105), and the market values of AOP are being multiplied by .876 (119.8 x .876 = 105). These assessment ratios are applied to new construction as well as existing property.

Because the relevant ratio is applied to all property in each class—and because individual properties increase in value at different rates—the new law does not guarantee that assessment increases on individual properties will be limited to annual 5-percent increases. Table 1 demonstrates how individual assessed values can increase by more or less than 5 percent.

Table 1. Market Values and Assessed Values as affected by Assessment Ratios.

Values and changes	House A	House B	Business A
1979 market value (= assessed value)	40,000	40,000	40,000
1980 market value	52,000	45,000	52,000
Percent change in market value	30	12.5	30
1980 assessed value			
(1980 market value x .842 for homesteads)	43,784	37,890	
(1980 market value x .876 for AOP)			45,552
Percent change in assessed value	9.5	−5.3	13.9

Because House A increased in *market value* more than 24.6 percent (the statewide average increase for homesteads) its *assessed value* increased by more than the statewide average of 5 percent. Because the market value of House B increased by less than the statewide average, the assessed value also increased by less than 5 percent—and in fact decreased.

It is also clear from this example that, under the new assessment system, homesteads and AOP that have identical increases in market value will experience different increases in assessed value. The market values of both House A and Business A increased 30 percent during 1979. The assessed value of House A increased by 9.5 percent, whereas the assessed value of Business A increased by 13.9 percent.

This assessment limit and split assessment roll would be continued beyond 1981 if Measure 5 is passed.

What is the A and B ballot provision?

The A and B ballot provision does three things:

- It puts a limit on the amount of property taxes the State will finance under the tax relief package.
- It gives voters a mechanism for voting separately on proposed operating levies that increase more rapidly than inflation and local population growth.
- It gives voters who have approved (or would approve) such operating levies a financial incentive to approve new tax bases.

The State has limited the local property taxes it will finance under the tax relief package to the greater of:

(1) the local government's tax base, or

(2) the local government's *adjusted levy* (its "base year operating levy" plus an adjustment for inflation and local population growth) plus serial levies for capital construction approved before October 3, 1979. The *base year operating levy* is generally the tax base plus special levies outside the tax base (excluding capital construction serial levies and bond levies).

The State will not make partial payment for tax levies for bonded debt; for serial levies approved after October 3, 1979, used partly or entirely for capital construction; nor for levies in excess of the adjusted levy.

If a local government's proposed levy is entirely within the tax base, no voter approval is required. If the proposed levy is within the adjusted levy—but outside the tax base plus previously approved serial or continuing millage levies—the amount within the adjusted levy not previously approved must be submitted to voters for approval on an A ballot. Any amount beyond this must be submitted to voters on a B ballot.

The State will partially finance levies approved on an A ballot; it will not partially finance B-ballot levies.

The following hypothetical example may clarify the operation of the A and B ballot provision. A local government has a tax base of $10,000 in fiscal year (FY) 1980 (July 1, 1979—June 30, 1980). Previously, voters approved a bond issue and a serial levy (a library operating levy of $1,000). Voters also approved a special 1-year levy outside the tax base for FY 1980 of $9,000. The population of the jurisdiction grew 5 percent between July 1, 1978 and July 1, 1979.

The levies of the government are shown in Table 2.

If the local government operates within its adjusted levy, the State will pay 30 percent of the entire adjusted levy.

Table 2. FY 1980 Tax Levies.

Levy	Qualifies for 30% state payment	Does not qualify for 30% state payment
1980 tax base	10,000	
Previously approved serial levy	1,000	
Special levy outside tax base	9,000	
Bond levy		2,000
Total	20,000	2,000

The base year operating levy of the government is $20,000 (the tax base plus special levies outside the tax base, excluding serial levies for capital construction and bonded indebtedness).

The FY 1981 adjusted levy is computed by multiplying the base year operating levy by a population and inflation indicator. This indicator is the product of an inflation indicator (based on the Portland Consumer Price Index, which showed a 14.3-percent increase in prices between September 1978 and September 1979) and an indicator of local population growth (5 percent in this case)—1.143 x 1.050 = 1.200.

Base year operating levy	$20,000
× Population inflation indicator	1.200
= FY 1981 adjusted levy	$24,000

The amount appearing on the A ballot is:

FY 1981 adjusted levy	$24,000
— Previously approved levies:	
FY 1981 tax base (1980 tax base + 6%)	10,600
Library levy	1,000
= A-ballot levy	$12,400

The ballot measure would indicate that the entire amount of this levy qualifies for the 30-percent partial state payment.

The proposed levies for FY 1981 in this case are shown in Table 3.

Table 3. Proposed FY 1981 Tax Levies.

Levy	Qualifies for 30% state payment	Does not qualify for 30% state payment
FY 1981 tax base	10,600	
Previously approved serial levy	1,000	
Special 1-year A-ballot levy	12,400	
Bond levy		2,000
Total	$24,000	$2,000

If the local government does not operate within its adjusted levy, the State will not pay 30 percent of levy beyond the adjusted levy.

If the local government in the example required $28,000 operating levy ($27,000 general operating levy plus $1,000 library serial levy) to balance its proposed budget, this would be larger than the amount to be partially funded by the State. A separate B ballot would be required in addition to the A ballot. The amount appearing on the B ballot would be:

Proposed FY 1981 operating levy	$28,000
— FY 1981 adjusted levy	24,000
= B-ballot levy	$ 4,000

The B ballot would indicate that the entire $4,000 would be paid by local taxpayers—without partial state payment.

The proposed FY 1981 levies in this case are shown in Table 4.

Table 4. Proposed FY 1981 Tax Levies.

Levy	Qualifies for 30% state payment	Does not qualify for 30% state payment
FY 1981 tax base	10,600	
Previously approved serial levy	1,000	
Special 1-year levies:		
A Levy	12,400	
B Levy		4,000
Bond Levy		2,000
Total	$24,000	$6,000

State law provides that if the voters approve a B levy without approving the A levy at the same or prior election, approval of the B levy is invalid. The A ballot can be approved without approval of the B ballot—but approval of the B ballot requires prior or simultaneous approval of the A ballot. The only exception to this is the case in which a serial levy for capital construction or mixed purposes (considered a B-ballot levy) is the only levy requiring voter approval. In this case, prior approval of an A ballot is not required.

If the local government operating beyond its adjusted levy receives a new tax base, the State will pay 30 percent of the entire amount within the tax base.

If the local government in the above case obtained voter approval for a new tax base of $27,000 rather than for an A levy of $12,400 and a B levy of $4,000 (above and beyond a tax base of $10,600), the State would pay 30 percent of $28,000 (the entire $27,000 within the tax base plus the $1,000 previously approved levy). Under the old tax base with approval of A and B ballots, the State would pay 30 percent of only $24,000 (the old tax base, the A levy, and the previously approved serial levy).

The proposed FY 1981 levies under a new tax base are shown in Table 5.

Table 5. Proposed FY 1981 Tax Levies under a New Tax Base.

Levy	Qualifies for 30% state payment	Does not qualify for 30% state payment
FY 1981 tax base	27,000	
Previously approved serial levy	1,000	
Bond levy		2,000
Total	$28,000	$2,000

The A and B ballot system would be continued beyond 1981 if Measure 5 passes. Table 6 provides a comparison of Oregon's future tax system with and without Measure 5.

Prepared by Bruce A. Weber, Extension economist, and Shepard C. Buchanan, research assistant, Department of Agricultural and Resource Economics, Oregon State University. Partial support was provided by Title V of the Rural Development Act of 1972. The authors acknowledge the assistance of Rick Harrington, Oregon Department of Revenue, and James Scherzinger, Legislative Revenue Office.

Extension Service, Oregon State University, Corvallis, Henry A. Wadsworth, director. This publication was produced and distributed in furtherance of the Acts of Congress of May 8 and June 30, 1914. Extension work is a cooperative program of Oregon State University, the U. S. Department of Agriculture, and Oregon counties. Extension invites participation in its programs and offers them equally to all people, without discrimination.

Table 6. Oregon's Future Tax System

Person, agency or system affected	Without Measure 5	With Measure 5
I. Property tax payments		
Homeowners	Taxes equal to tax rate times assessed value of property. HARRP would provide up to $655 refund to homeowners with household incomes of less than $16,000. Higher payments made to those with lower incomes.	Taxes equal to tax rate times assessed value of property. The State would pay up to 30 percent of the taxes levied on owner-occupied principal residences, up to a maximum of $800. State payments are made directly to counties, and the homeowner's tax bill is reduced to reflect the state payment. HARRP would provide additional refund of up to $750 for homeowners with incomes of less than $17,500. Higher payments made to those with lower incomes.
Renters	Renters pay no direct property taxes. A portion of the rent is used by landlords to pay taxes. HARRP would provide up to $328 refund to renters with incomes of less than $16,000. Higher payments made to those with lower incomes.	Renters pay no direct property taxes. The State would pay renters a refund of 4.7 percent of rent paid, up to a maximum of $400. HARRP would provide an additional refund of up to $375 for renters with household incomes of less than $17,500, with higher payments made to those with lower incomes.
Owners of all other property	Taxes equal to tax rate times assessed value. Certain farmlands assessed at farm use value.	No major changes from present system, except that—because of the assessment limitation and split assessment roll—*all other property* would likely pay a larger share of property taxes.
II. State personal income tax payments		
	Income payments would be computed using a personal exemption of $750. The maximum deduction of federal income tax payments for state personal income tax computations would be $5,000.	The personal exemption would be $1,000. It would be indexed to the rate of inflation—that is, the personal exemption would increase each year the same percentage that the Portland Consumer Price Index grew the previous year. The maximum deduction of federal income tax payments for state income tax purposes would be $7,000. These provisions would have the effect of reducing income tax payments.
III. Assessment system		
Assessment of property	With certain exceptions, property in Oregon would be assessed at its true cash value (TCV)—the price a willing buyer would pay a willing seller. Assessed value would equal true cash value.	Property would not be assessed at true cash value. Two classes of property would be created: *homesteads* (owner-occupied principal residences) and *all other property* (AOP). Assessments on individual properties would be adjusted downward from TCV using a statewide ratio calculated to ensure that the total assessed value of existing property in each class increased no more than 5 percent per year. Homesteads would be assessed at a certain percentage of TCV (for 1980 this ratio is 84.2 percent), and AOP at another ratio (87.6 percent for 1980). Assessments in individual properties might increase more or less than 5 percent. New construction would be assessed at the ratio appropriate for its class.

Person, agency or system affected	Without Measure 5	With Measure 5
Apportionment of taxes	Property taxes generally would be shared among the property owners in direct proportion to the current market value of their holdings.	Within each class, property taxes would be shared among property owners in proportion to the TCV of their property. Between classes, however, taxes would not be shared in proportion to TCV, if the ratios for the two classes were different. The class with the higher ratio would pay a greater share of taxes relative to that class's share of TCV.
IV. Local government		
	For local governments with voter-approved tax bases, the tax levy within this base may increase 6 percent each year without voter approval. Tax levies outside the 6 percent limitation must be approved by the voters.	The 6 percent tax limitation would remain in force. In addition, local governments would, under certain circumstances, be required to submit the tax levy measures to voters using an A and B ballot system. On the A ballot, local governments would seek voter approval for levies outside the 6 percent limitation but within the *adjusted levy* (generally the prior year's operating levies adjusted for inflation and local population growth). On the B ballot, voters could vote on levies higher than the adjusted levy and serial levies used partly or wholly for capital construction. Levies within the tax base and levies approved on the A ballot are partially financed by the State: 30 percent of the taxes due on homesteads for these levies is paid by the State. Bond levies, new serial levies for capital construction, and levies approved on B ballots do not receive partial state financing. The effect on local revenues would depend on the response of local governments and voters to this new A and B ballot system.
Spending	Local governments must balance their budgets.	Local governments must balance their budgets. The effect of Measure 5 on local spending would depend on the response of local governments and voters to the new voting requirements for tax levies (i.e., the A and B ballot system).
V. State government		
Spending	State government must balance its budget.	In addition to the balanced budget requirement, growth in state-general-fund spending would be limited to the growth rate of personal income in Oregon during the previous 2 years. Non-HARRP tax relief and debt service would be exempt from this limit.
Surplus	There is no specific provision to return unspent state revenues to taxpayers.	When actual state general operating revenues exceed estimated revenues by 2 percent or more, the total amount of surplus funds would be refunded to taxpayers in proportion to their income tax payments.