



PORTLAND <i>City Club</i> BULLETIN	Mayfair Room • Benson Hotel
	Friday . . . 12:15 p.m.
Portland, Oregon • April 20, 1973 • Vol. 53, No. 47	

Printed herein for presentation, discussion and action on Friday, April 20, 1973:

REPORT

ON

**PROPERTY TAX LIMITATION:
SCHOOL TAX REVISION**

**(State Measure No. 1 in
special election May 1, 1973)**

The Committee: William C. Carpenter, Donald Flora, Fergus O'Scannlain,
Raymond A. Thompson, Paul Ventura, Donald W. Williams and
Chairman Thomas L. Gallagher, Jr., *for the majority.*
Thomas Hamann, Jerrold J. Isom, and Roman J. Okoneski, Jr., *for the minority.*

* * *

ELECTED TO MEMBERSHIP

James S. Hickey, III, General Contractor. Secretary-Treasurer, James S. Hickey,
Inc. Sponsored by Gary L. Michael.

Joseph A. Oliver, Jr., Marketing Manager, International Business Machines.
Sponsored by Kenneth Wiedemann.

*"To inform its members and the community in public matters and to
arouse in them a realization of the obligations of citizenship."*

TABLE OF CONTENTS

- I. Introduction
- II. Background
- III. Major Features of State Measure No. 1 and House Bill 2004
 - A. Taxation
 - B. Distribution of Revenue
- IV. Arguments of Effect on Individual Taxpayers
- V. Discussion of Oregon's Current Property Tax System
- VI. General Discussion
- VII. Majority Conclusions
- VIII. Majority Recommendation
- IX. Minority Conclusions
- X. Minority Recommendation
- XI. Appendices
 - A. Interviewees
 - B. Meetings and Hearings Attended
 - C. Bibliography

PORTLAND CITY CLUB BULLETIN

Published each Friday by the
CITY CLUB OF PORTLAND
 505 Woodlark Bldg. Portland, Oregon 97205
 Phone 228-7231

ELLAMAE W. NAYLOR, Editor
 and Executive Secretary
 MORRIS S. ISSEKS, Archivist

Second Class Postage Paid at Portland, Ore.
 Subscription rates \$6.00 per year included in
 annual dues.

OFFICERS OF THE BOARD

John P. Bledsoe President
 Donald J. Sterling, Jr. President-Elect
 Robert W. McMenamin First Vice President
 John A. Mills Second Vice President
 James A. Larpenteur, Jr. Secretary
 Joe D. Kershner Treasurer

GOVERNORS OF THE CLUB

Jack R. Brown Neil Farnham
 A. M. Burdige Emerson Hoogstraat
 Don Chapman James S. Leigh

RESEARCH BOARD

Robert W. McMenamin, Chairman
 Leigh D. Stephenson, Vice Chairman
 Arno Reifenberg, Secretary
 Forrest Blood Burton W. Onstine
 William A. Comrie Peter A. Plumridge
 Michael L. Emmons Lloyd B. Williams
 Stephen Herrell
 Stanton W. Allison, Research Editor

PROJECT PLANNING BOARD

John A. Mills, Chairman
 Clifford N. Carlsen, Jr. Edmund Hayes, Jr.
 E. Shelton Hill

CITY CLUB DUES: Senior, members over 65 with 35 years membership, or over 70 with 15 years membership, \$5.00 per year; Regular, age 28 and over, \$36.00 per year; Junior, ages 23 through 27, \$18.00 per year; Student, ages 18 through 22, \$6.00 per year; Non-Resident, \$12.00 per year; Sustaining, those who contribute \$10.00 or more per year over and above the dues in their category for the Portland City Club Foundation, Inc. The regular FRIDAY LUNCHEON MEETINGS are held in the Mayfair Room of the Benson Hotel, unless otherwise indicated.

COLUMN CITES CONFUSION
OVER TAX PROPOSAL

If the complex "tax reform" proposal in this week's Bulletin to be presented this Friday for City Club action is heavy going for you, even reduced as it is to "laymen's language", you might enjoy reading or re-reading the following quip which appeared in Francis Murphy's "Behind the Mike" column in the *Oregonian* recently:

Oregon's Legislators were addressed at length Tuesday by the president of Japan's Junior Chamber of Commerce, who spoke in uninterpreted Japanese. After the speech, one member remarked, "You know, that's the best explanation I've heard of Governor McCall's tax proposal". His companion replied, "But I still don't understand the school distribution formula!"

PROGRAM SCHEDULE:

April 27: James A. Roche, chairman of the President's Commission on employer support of reserves and national guard.

May 4: Jacob Tanzer, director, Department of Human Resources, State of Oregon, on the future for human services.

May 11: John McMillian, president-designate, APCO (natural gas company which will take over El Paso's holdings in the Northwest) on gas and the energy crisis.

May 18: Congressman Wendell Wyatt, U.S. House of Representatives. Topic to be announced.

REPORT
ON
**PROPERTY TAX LIMITATION:
SCHOOL TAX REVISION**

(State Measure No. 1)

Purpose: Retains limitations on school tax levies for bonds, capital expenditures, transportation and intermediate education districts. Limits school districts' other tax levies to \$2 per \$1,000 value. Permits state-wide school tax on nonresidential property not exceeding \$10 per \$1,000 value. Makes effective legislation increasing personal income and corporate tax rates, limiting federal tax deduction, creating business profits tax, prescribing revenue distribution for school districts, and declaring preservation of local school control the public policy of Oregon.

To the Board of Governors,
The City Club of Portland:

I. INTRODUCTION

State Measure No. 1 (SM1) is a proposed constitutional amendment passed by the Oregon Legislative Assembly and referred to the voters of Oregon in a special election to be held on May 1, 1973. The measure would impose certain constitutional limitations upon the the power to levy *ad valorem* taxes on property to finance the use, construction, maintenance or operation of schools or educational institutions offering education at grades 12 or below. House Bill 2004 (HB 2004), which has been passed by the 1973 Legislature and which provides for substantial changes in Oregon's tax laws, becomes law on the effective date of the constitutional amendment.

Your Committee has had inadequate time to fully analyze these complex proposals and their potential effects. Therefore, your Committee has necessarily taken an overview and has had to rely on certain statistical information without having the capability or the time to verify it independently. To the extent that such information is subsequently shown to be incorrect, conclusions drawn in this report are subject to change. No effort was made to determine if there are specific drafting mistakes in SM1 or HB 2004, but rather the Committee has focused its attention on the main operative provisions of that bill.

II. BACKGROUND

Property taxes, as well as the cost of education, have risen substantially in recent years in Oregon. A number of school districts in Oregon have had considerable difficulty in obtaining voter approval of operating levies outside of their inadequate tax bases. A portion of this voter resistance may be simply an objection to the overall tax burden, with the operating levies for schools being the only place to really express this objection, but at least part of this voter rejection would appear to be a rejection of the property tax.

In 1968, a proposed constitutional amendment was placed on the November ballot by an initiative petition. That ballot measure would have limited property taxes for all purposes to one percent of true cash value. This measure was defeated at the polls.¹ In 1972, a proposed constitutional amendment was placed on the November ballot by an initiative petition sponsored by the Oregon Farm Bureau Federation which would have prohibited the use of property taxes for school operating costs. It, too, was soundly defeated at the polls.² These measures did not provide any alternative means of funding.

¹The measure was defeated by a vote of 503,443 No; 276,451 Yes.

²The measure was defeated by a vote of 551,816 No; 339,431 Yes.

The schools of Oregon rely heavily on property taxes to finance their operating expenses. The relative amount of state school support has been declining, and it is now approximately 22 percent. Over 60 percent of the total property tax collected in Oregon, from both residential and non-residential property, goes toward payment of operating costs of Oregon's schools.

III. MAJOR FEATURES OF SM 1 AND HB 2004

A. TAXATION

The basic revenue-producing features of HB 2004 are as follows:

1. A business profits tax is imposed upon the net business profits of corporations, proprietors and partners. In arriving at net business profits, no deduction is allowed for salaries or other compensation paid to a corporate shareholder owning 10 percent or more of the outstanding stock of a corporation or to a proprietor, partner or employee who shares in the profits and losses of an unincorporated business.

The business profits tax rates imposed are:

<u>Net Business Profits</u>	<u>Rate</u>
\$ 0 - 15,000	0
15 - 75,000	1%
Over 75,000	2%

No business profits tax is imposed on salaries received by individuals.

2. The present corporation excise tax of 6 percent (8 percent for banks and financial institutions) on net income is changed to rates from 4 percent to 9 percent on all corporations graduated as follows:

<u>Net Income</u>	<u>Rate</u>
\$ 0 - 1,000	4%
1,000 - 2,000	5%
2,000 - 4,000	6%
4,000 - 6,000	7%
6,000 - 8,000	8%
Over 8,000	9%

3. The present personal property tax on inventories which was being phased out over the years 1969-1979 is eliminated.
4. Individual income tax rates would be increased as follows:

<u>Oregon Taxable Income</u>	<u>PRESENT</u>		<u>PROPOSED</u>	
	<u>Tax on Taxable Income</u>	<u>% of Tax on Excess</u>	<u>Tax on Taxable Income</u>	<u>% of Tax on Excess</u>
\$ 0	\$ 0	4%	\$ 0	5%
500	20	5%	25	7%
1000	45	6%	60	8%
2000	105	7%	140	9%
3000	175	8%	230	11%
4000	255	9%	340	12%
5000	345	10%	460	13%

The above table applies to a single individual or one filing a separate return. For a joint return, head of household or surviving spouse return, the above income brackets are doubled, with the result that the proposed maximum 13 percent rate applies to taxable income of over \$10,000.

5. The deduction of Federal income tax on the Oregon income tax return is limited the actual Federal income tax or \$2,000, whichever is smaller.

6. The bill allows individuals a credit on their Oregon income tax return of 10 percent of the property tax paid on owner-occupied residential property. Renters are allowed a similar credit of 9 percent of actual rent paid. The existing homeowner's property tax relief provisions are expanded to provide comparable relief to renters.
7. HB 2004 enacts a state-wide property tax on all taxable property other than owner-occupied residential property. The rate is established at \$7.50 per \$1,000 of true cash value.

The basic revenue features of SM1 are as follows:

1. State Measure 1 contains constitutional limitations on the power to levy property taxes for the operation of schools.
2. Without a vote of the people, school districts may levy a maximum property tax of \$2.00 per \$1,000 true cash value.
3. A state-wide property tax for schools on property other than owner-occupied residential property is limited to \$10.00 per \$1,000 true cash value.
4. A tax base of either 5 percent of the tax base of the taxing unit in effect, prior to the effective date of SM1 or 106 percent of that portion of the taxing unit's budgeted expenditures from local sources for transportation for the fiscal year in which SM1 takes effect is created. Districts may levy taxes within this tax base to pay for transportation, capital outlay, capital construction and equipment.
5. School districts may levy taxes for payment of bonded indebtedness or interest thereon, capital outlay, capital construction and equipment, and transportation of pupils.

B. DISTRIBUTION OF REVENUE

The following material outlines the essential elements of the provisions of HB 2004 relating to the distribution of money by the State of Oregon to local school districts offering education at Grade 12 or below:

1. A Basic Education Fund is established in the General Fund of the State Treasury. The Superintendent of Public Instruction shall allocate moneys in this fund as follows:

(a) for transportation grants equal to 55 percent of the district's approved transportation costs;

(b) for basic grants computed in accordance with a statutory formula. The basic grant will finance adjusted district expenditures up to the basic program level which is set at \$900 per full time equivalent student, weighted³ (FTEw) during the 1973/75 biennium;⁴

(c) for equalization grants computed in accordance with a statutory formula. The equalization grant will provide additional support to school districts whose adjusted district expenditures exceed the basic program level. This grant is limited to \$300 during 1973/1974 and \$350 during 1974/1975.⁵ Each district receiving an equalization grant will be required to levy part of its optional \$2.00 per \$1,000 local levy as a condition of receiving the equalization grant.

2. An Education Contingency Account is established in the General Fund of the State Treasury. Moneys in this account may be used for increasing the basic grants of those districts whose adjusted district expenditures are below the basic program level (\$900 per FTEw). The Emergency Board must approve the purpose (which is set forth in HB 2004) for which the contingency grants are to be used.

³"Full-time equivalent" (FTE) means the aggregate days membership (kindergarten pupils are counted for the portion of the day the pupil was in attendance) of a school during a certain period, divided by the number of days the school was actually in session during the same period. "Full-time equivalent, weighted" (FTEw) means the sum of the total resident pupils in full-time equivalent in grades 9 through 12 in the district multiplied by 1.3 plus the total of the resident pupils in full-time equivalent in the district in kindergarten through grade eight.

⁴HB 2004 apparently does not fix the amounts of either the basic grant or the maximum equalization grant for periods after the 1973/75 biennium.

⁵Ibid.

IV. ARGUMENTS OF EFFECT ON INDIVIDUAL TAXPAYERS

The following arguments were presented to your Committee in favor of House Bill 2004 in relation to the changes in Oregon's tax system for individual taxpayers.

1. HB 2004 will reduce property taxes.
2. HB 2004 will result in a net tax savings to approximately 80 percent of Oregonians.
3. Renters will achieve relief from the indirect property taxes which they pay by being granted a credit against their Oregon income tax liability for a portion of the rent which they pay.
4. HB 2004 is based primarily upon the "ability to pay" principle and is, therefore, more equitable than our current taxation system for financing the operation of public schools.
5. SM1 contains a constitutional limitation on the power to levy *ad valorem* taxes.
6. HB 2004 does not shift taxes from the business community onto individual taxpayers.

The following arguments were presented to your Committee against HB 2004 in relation to the changes in Oregon's tax system for individual taxpayers.

1. A thorough study has not been made on HB 2004 to ascertain with any certainty its effects on business and individual taxpayers, the adequacy of revenue produced and the impact on the general economy of Oregon.
2. The claim that approximately 80 percent of Oregon Taxpayers will pay less total taxes is questionable. The 20 percent of individuals supposedly paying more taxes cannot provide the necessary revenue to pay for the expenditures which this bill will bring about.
3. There is enough surplus revenue currently in the general fund to provide substantial property tax relief by raising the state's share of support of the operating cost of Oregon schools.
4. HB 2004 provides unequal property tax relief. The amount of relief received depends upon the taxing district in which one's home is located. Unequal relief is particularly unfair since all individuals will pay the same increased income tax rates.
5. The inequity is particularly great to residents of Portland. The net effect of this bill will be that Portland taxpayers will be supporting schools in the rest of the state, while not receiving the same degree of property tax relief which would be received by many other Oregonians.
6. The \$2,000 limitation on deduction of federal income tax from Oregon income means that many Oregonians will be paying state income tax on money paid to the federal government in federal income taxes. This constitutes a tax on a tax and is thus unfair.
7. The bill, while characterized by some as a tax reform bill, does not reform many aspects of current income and property tax laws claimed by some of the critics of Oregon's current tax laws to be "loopholes."
8. Even assuming that approximately 80 percent of Oregonians will pay less total taxes in the 1973/75 biennium, a portion of this saving is made possible by the use of general fund monies which are taxes already paid by Oregonians.
9. The net business profits tax provided by HB 2004 imposes a tax on sole proprietors and partners in partnerships with net business profits of over \$15,000 while not imposing a comparable tax on the income of persons who earn comparable sums and are employed by corporations.

