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Report to the Governor's Task Force on Comprehensive Revenue Restructuring

Modifications to the Property Tax System/ Revenue Diversification for Cities

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THE CHALLENGE:

- Cities provide services to their residents: public safety, fire, infrastructure (streets, water, sewer), parks/recreation, libraries, planning, and employment opportunities.
- Primary revenue sources are declining: property taxes, franchise fees, state shared revenues.
- Many revenue sources are restricted: property taxes, transient lodging taxes, systems development charges.
- Other revenue sources are preempted: beer/wine/liquor, cigarettes/tobacco, construction excise taxes, real estate transfer tax.
- A significant number of cities (more than half) have reached M5 property tax compression limits.
- In many cities, change property ratio (M50) has resulted in significantly reduced property tax collections and has reduced revenues for urban renewal projects.
- Cities spend majority of property tax (general fund) revenues on public safety- 80-180%.
- Increases in public employee costs are far exceeding the growth of property tax revenues.
- Increases in street materials (asphalt, rock, concrete) costs versus state highway fund revenues have soared-25-50-100%, respectively.
- Projections indicate that cities will experience shortfalls in their aggregate revenues- reaching \$600 million under existing inflationary rates and modest declines under a benign forecast. *This projection does not take into account the adequacy of declining levels of municipal services since the passage of M50.*
- There is a projected tidal wave of population growth in Oregon: existing cities will continue to grow faster than unincorporated areas- current ratio, 70/30%; 2020 projection, 76/24%.

Existing Conclusions Regarding the Challenge:

1. Primary revenue sources are restricted – Measures 5/50.
2. Costs are growing faster than revenues – infrastructure, personnel, public safety.
3. Local options for raising revenues are under threat – preemptions/restrictions.
4. Population growth will demand municipal service and infrastructure expansion – cities will need to accommodate forecasted growth with additional capital construction.

“Getting it done for Oregon’s cities!”

Likely Outcomes Without Significant Changes:

1. Continued M5/50 restricted revenues will aggravate inequities in taxes paid on residential and commercial properties – and may result in an increased reliance on industrial property to increase tax base. Service delivery will change with increasing population numbers - likely to see significant increases of special service districts in some areas. Over time the disparity between assessed value and market value will grow, variations in effective tax rates among tax payers will increase, effective tax rate/collections will decline on a statewide basis.
2. Costs of providing services continuing to grow faster than revenues will result in aging/declining infrastructure, degradation of work force/schools, and increased crime.
3. Continued or increased constraints of local revenue options (restrictions/preemptions) will accelerate the negative impacts of M5/50.
4. Inability to accommodate growing populations with required services will eventually drive new taxpaying population elsewhere and exacerbate the general decline of existing community infrastructure that the new population would help to support.

THE SOLUTION:

First and foremost, cities support changes to the property tax system that provide stability and predictability for taxpayers and local governments alike, while providing greater sufficiency for needed city revenue and minimizing inequities for property owners.

Cities' ability to raise revenue is severely restricted by Measures 5/50, which have also imposed strict limitations on the ability of local governments to respond to changing fiscal/market conditions and to adequately fund essential services. And while modifications to the property tax system may require a multi-session effort, local governments need assistance now, in order to continue providing important services to their citizens.

As the Governor's Task Force reviews and weighs the menu of long term options for changes to the property tax system, the League of Oregon Cities requests that the committee consider a number of shorter term interim strategies to aid local governments in the wake of a declining revenue base:

#1 –Refrain from new preemptions of local revenue sources or new expenditure mandates, and provide sufficient funding for the property tax expenditure compensation fund to cover all local government revenue losses in the future.

Don't make the current situation worse: new exemptions to property taxes, new expenditure mandates, or preemptions of local revenues will further exacerbate local government's declining revenue base and inability to provide necessary services. These recommendations have also been made by the Governor's Task Force on Federal Forest Payments and County Services.

#2- Allow transient lodging taxes to be used to offset expenditures for tourism-related services.

Many cities incur substantial service expenditures necessitated by out-of-area residents or tourists. This proposal would allow additional use of transient lodging tax revenues to offset expenditures for tourism related services, in addition to the current use of tourism related facilities.

#3- Remove the local preemption on real estate transfer taxes.

Statute (ORS 306.815) currently prohibits local jurisdictions from adopting a local real estate transfer tax. Removal of this preemption would potentially generate substantial revenue for local governments, without requiring a constitutional amendment.

#4- Convert franchise fees from telecommunications providers to a gross revenues tax - replacing a declining revenue source with a stable system.

In June of 2008, the Governor’s Task Force on Comprehensive Revenue Restructuring received a presentation from the League of Oregon Cities on a telecommunications tax proposal to replace a declining revenue source with a stable, long-term revenue source that would allow for growth as technologies and local economies expand. The proposal addresses two critical issues for cities—the protection of city rights-of-way authority and preservation of essential telecommunications revenues. Growth in technology has led to significant implications for city rights-of-way authority and telecommunications revenues, while the predominant system of franchising telecommunications providers has not kept pace with technology. Additional details of the proposal were included in the full report to the Task Force.

#5- Allow cities to create service districts within city boundaries, establish a permanent property tax rate, and fund specific urban services within the district.

Federal funding for major infrastructure improvements has steadily declined for the past several decades. Existing state and local resources barely keep up with the need for replacement infrastructure for existing development, with no consideration to areas that are rapidly urbanizing with new development and needed infrastructure. The formation of “city” service districts (located solely within city limits and not within the boundaries of existing districts that provide the same service) to provide urban services would increase the “tools” cities have to provide needed services.

#6- Increase the construction excise tax reimbursement rate.

The 2007 Legislature preempted cities from enacting new excise taxes and authorized schools districts authority for facility construction, maintenance and refurbishing. ORS 320.179(c) allows cities to collect an administrative fee to recoup its expenses in collecting the tax for schools, not to exceed one percent of tax revenues – one percent has proven to be insufficient to recoup administrative costs.

#7- Develop new, viable funding sources/mechanisms for new capital infrastructure needs.

Funding for capital infrastructure needs, such as streets, water and sewer for existing areas and for urban growth boundary expansion areas continues to be one of cities' great fiscal challenges. Federal funds, which historically funded most of Oregon's major infrastructure improvements have steadily declined for the past several decades, and will continue to decline with the recent increases in oil prices and the current national economic decline. Cities have increasingly moved to fees for major infrastructure improvements and significantly reduced expenditures on major capital expenditures in order to focus available resources on maintaining the existing system. This has hampered their ability to invest in improvements to attract and accommodate population growth, economic development and job creation. Continued research is needed to identify new funding mechanisms that would provide both taxpayers and local governments an equitable and stable resource for new infrastructure investments to serve both redevelopment and urbanizing areas.

#8- Support a transportation package that includes city preservation funding.

Well maintained city streets provide vital vehicle, freight, pedestrian, bicycle, and transit connections in our communities. Legislative action is necessary to aid in maintaining and protecting this vital asset. In 2007, it was estimated that the funding gap for municipal maintenance needs is \$160 million per year – and will rise considerably as the cost of oil continues to rise. Cities, counties and the state cannot address the challenges of Oregon's transportation system alone – we must work together as partners to meet those challenges.

#9- Recapitalize the Special Public Works and Water/Wastewater fund with a minimum level of funding of \$80 million for local infrastructure projects.

The state's Special Public Works Fund and the Water/Wastewater Fund are used to finance water and sewer systems, public buildings, road construction, downtown revitalization, energy and communications facilities, environmental clean-up, and port facilities. There has not been a significant re-investment by the state in the fund for several biennia, despite growing infrastructure demand.