



1201 Court Street NE, Suite 200 • Salem, Oregon 97301
(503) 588-6550 • (800) 452-0338 • Fax: (503) 399-4863
www.orcities.org

February 16, 2016

To: Chair, Sen. Mark Hass, and Members of the Senate Finance and Revenue Committee

Re: Opposition to SB 1545

The League opposes SB 1545 for the following reasons:

- ❖ More existing taxing districts, including cities, will likely go into compression and those already in compression would see compression increases if children’s districts were created and added to the tax rates in many locations.
- ❖ The services provided by proposed children’s districts can be provided by existing school districts and existing local government taxing districts. This is in contrast to other special districts that provide unique services.
- ❖ Comprehensive property tax reform is needed before authorizing creation of this new special district that will simply compete with existing limited tax revenues. This bill would simply move existing budget battles and limited revenue problems to new forums.
- ❖ The bill will increase complexities and cause potential litigation as how children’s district revenues are spent will have to be carefully scrutinized to be properly categorized under Measure 5. See *Urhausen v. City of Eugene*, 341 Or 246 (2006) (Oregon Supreme Court applying ORS 310.155 and analyzing mixed-use expenditures; case concludes that services must be segregated into the two Measure 5 categories by percentages).
- ❖ Facilities, even though mixed in local government and education use, would be allocated to the \$10 local government caps; such allocations could be very damaging to local government budgets. See *McGuire et al v. City of Portland, Portland Development Commission and Portland State University*, Case No. 5226, Oregon Tax Court (June 16, 2015) (“[I]n the case of a multiple purpose facility, the presence of any non-school use causes the revenue used for the facility to be placed in the non-school, or general government category.”)
- ❖ Requiring county attorneys or district attorneys to provide legal advice to children’s districts (without any compensation requirement), would put further financial stress on counties—which provide a vital public safety resource to communities.

Measure 5:

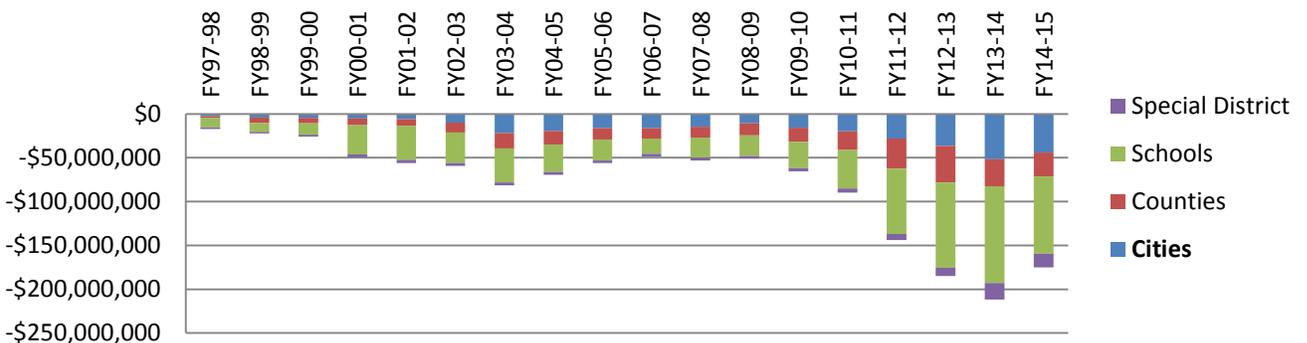
Both the Measure 5 property tax limits will come into play should this bill pass. This is true because this bill’s broad definition of “children’s services” in Section 2 covers services that could be placed in the education category or the local government category. Recall that Measure 5, passed in 1990, imposes \$5 (education) and \$10 (local government) caps per \$1000 RMV (i.e. 1.5%).

Compression:

Compression is a reduction in taxes that would otherwise be levied but must be reduced due to Measure 5 limits. Compression is computed on a property-by-property basis. To determine a property’s tax liability, all the taxing districts’ permanent tax rates and any voter-approved local option levies are applied to the assessed value (AV) of a property to calculate the taxes owed. However, this amount is then compared to the Measure 5 limitations, which are based on real market values (RMV). If the taxes to be imposed exceed the Measure 5 limits (\$5 for education and \$10 for local government), the taxes owed are reduced until the limitations are met—this process is known as compression. Proportional reductions are taken from all local option levies first. If compression amounts exceed all local option levies, permanent rates in all other property taxes in the category (education or local government) are proportionally reduced. Many parts of the state have hit one or both limits already and thus existing districts would see tax reductions.

In total, **\$175.2 million was lost to compression in 2014-15**. **Schools lost \$88 million**, which is 50 percent of all revenue lost to compression; **counties lost \$27 million** (16 percent); **cities lost \$44 million** (25 percent) and all **other districts combined lost \$16 million** (9 percent). See bar graph below showing compression by type of local government since Measure 5’s passage.

Revenue Lost to Compression by Type of Local Government



Revenue Lost to Compression by Type of Local Government, FY 97-98 to present (Source: Oregon Property Tax Statistics, FY 2015-15, compiled by Oregon DOR)

Bill Summary with notations:

Section 1: Authorizes the formation of children's special districts as a new type of special district to provide children's services.

Section 2: Defines the meaning of "children's services" to include outside of school services to K-12 students, including "education, civics, culture, arts and music, physical recreation, health and well-being, technology and the development of skills." **This definition is broad enough to cover both education and local government service categories of Measure 5.**

Section 3-4: Sets up the Board requirements for a children's special district.

Section 5: Lists the powers of a children's special district. Subsection (4) includes within the list of powers the power to levy and collect property taxes to pay the cost of children's services within the boundaries of the district and pay the operating expenses of the district. **This section (along with sections 7-8) grants property tax levy authority and thus will cause/exacerbate compression under Measure 50.**

Section 6: This section of the bill gives the district's board the authority to use the county attorney or the district attorney (of the county in which a children's district is located) for legal advice upon request of the board. **This section will cause a strain on county attorney budgets.**

Section 7: Permits the children's district board to determine and fix the property tax levy for the district.

Section 8: Requires property tax revenues received by the district to be deposited with the county treasurer and the treasurer shall pay out the moneys upon request of the children's district board.

Conclusion:

The League acknowledges the importance of funding children's services and the present lack of resources in many parts of the state. The solution is comprehensive property tax reform. Unfortunately, this bill would seem to only exacerbate the present inequities and property tax problems. In addition, the services provided by a children's district can be provided by existing taxing jurisdictions. Thus, voters have a choice. For these reasons, the League of Oregon Cities opposes the bill.