

**Multnomah County
Public Hearing
Library District with \$1.2400 Permanent Rate
November 6, 2012 General Election**

Date: Monday, October 15, 2012
Time: 4:00 p.m.
Place: County Commissioner's Board Room
Multnomah Building
501 S.E. Hawthorne Blvd.
Portland, Oregon

Permanent Property Tax Rate Levy

Measure 50, passed by Oregon voters in 1997, converted nearly all property tax authority for operating purposes that taxing districts levied in 1997-98 to permanent tax rates for each district. These rates cannot be changed, even by a vote of the people. The Measure anticipated that those districts that had never levied property taxes prior to 1997-98 or newly created districts would require permanent tax rate authority at some point. Provisions were therefore made to allow voters in those districts to approve a permanent tax rate. Oregon Constitution, Article XI, Section 11, subsection (3)(c)(A).

Double Majority Standard

Another provision of Measure 50 is the "double majority" standard for approving property tax measures. Certain measures, as specified in the Constitution, are approved only if: a) at least 50 percent of registered voters eligible to vote in the election cast a ballot, or b) the election is a General Election in an even-numbered year. And of course a majority of those voting have to vote in the affirmative. The double majority standard applies to permanent tax rate measures, local option levies, bond measures and charter amendments which "permits the ad valorem property tax levy for local government pension and disability plan obligations to be increased". At the November 4, 2008 General Election voters approved Ballot Measure 56 which substantially altered the double majority standard. Under new section 11K, Article 11, the double majority does not apply to any election held in May or November.

This Measure would not be subject to the double majority standard since the election (November 6, 2012) is an election held in November.

Measure 5 Compression

Permanent rate limit levies must be categorized as either "general government" or "education" for purposes of testing the Measure 5 limits. This could limit taxes to be collected after Measure 5 compression for all levies under the same category. However, Measure 50 stipulates that local option levies are to be compressed first on a property by property basis and only when these levies are reduced to zero will taxing district's permanent rate levies be compressed to keep

within the Measure 5 limits. Since this permanent rate limit would replace a local option levy for library services, it is estimated that losses due to compression for the library will actually decline if this measure is successful.

The levy for Multnomah County will be categorized as a general government levy for purposes of the Measure 5 limitations.

District Background

A five member salaried board governs the County. All are elected to four-year terms on non-partisan ballots: the Board Chair is elected at large and four board members are elected from districts. The Territorial Legislature established Multnomah County in 1854, five years before Oregon was granted statehood, because citizens found it inconvenient to travel to Hillsboro to conduct business. Portland was designated as the county seat.

Of the 36 counties in Oregon, Multnomah County is Oregon's smallest in area, covering 457 square miles. Despite its size, the County is home to more Oregonians than any other county. The County's estimated population was 741,925 as of July 1, 2011. Approximately 98% of the population of the County resides within the boundaries of one of six cities, 80% within the largest city in the state, Portland. Multnomah County is also home to Oregon's largest: Community College, School District, ESD, Port, Mass Transit District, Regional Government, and Urban Renewal Agency.

The County operates under a 1967 home rule charter that assigns legislative authority to the Board of County Commissioners and administrative responsibility to the Chair of the Board.

In November 2010, voters approved a five year local option levy for the operation of the Oregon Historical Society. The rate is \$0.0500 per \$1,000 of assessed value. The first year of this levy is 2011-12; the last is 2015-16. In May 2012, voters passed a three year Library Local Option Levy with a rate of \$0.8900 per \$1,000 of assessed value. This is a continuation of temporary levies to operate libraries going back over 30 years

Below is the General Information Chart from TSCC's 2011-12 Annual Report:

Multnomah County	2008-09	2009-10	2010-11	2011-12
Assessed Value in Billions	\$56.959	\$59.301	\$61.027	\$62.693
Real Market Value (M-5) in Billions	\$107.382	\$105.011	\$101.559	\$95.354
Property Tax Rate Extended:				
Operations	\$4.3434	\$4.3434	\$4.3434	\$4.3434
Library Local Option	\$0.8900	\$0.8900	\$0.8900	\$0.8900
Historical Society Local Option	\$0.0000	\$0.0000	\$0.0000	\$0.0500
Debt Service	\$0.1602	\$0.1692	\$0.1512	\$0.1569
Total Property Tax Rate	\$5.3936	\$5.4026	\$5.3846	\$5.4403
Measure 5 Loss	\$-11,730,667	\$-13,666,868	\$-17,977,188	\$-27,685,241
Number of Employees (FTE's)	4,570.14	4,398.51	4,540.80	4,526.51

The County's website notes the following:

Multnomah County Library is the oldest public library west of the Mississippi, with a [history](#) that reaches back to 1864. Today, Central Library and the other 18 [neighborhood libraries](#) that make up the library system house nearly 900 computer search stations for the public and a [collection](#) of two million books and other library materials.

As Oregon's largest public library, Multnomah County Library serves nearly one-fifth of the state's population with a wide variety of programs and services.

Measure Overview

Multnomah County is seeking to create a separate taxing district as authorized in state law. The new district, the Multnomah County Library District, would be considered a special district under ORS 186.010(23). Governing statutes are included in ORS 357.216 to 357.286.

The District would be a separate legal entity from Multnomah County. It will prepare a separate budget and annual comprehensive annual financial report (CAFR) and TSCC will conduct a separate public hearing on its approved budget. However, the County Board of Commissioners will serve as the governing body of the new district.

The question of forming a separate library district includes establishing a permanent tax rate limit for the new district. The rate being requested is \$1.2400 per \$1,000 of assessed value. This compares to the current \$0.8900 local option levy rate that was approved in May 2012 dedicated to library operations. If approved, the Library District would go into effect for the 2013-14 fiscal year and effectively cancel the remaining year of the three year levy.

The County has relied on temporary levies to fund library operations since 1976. And according to the county, discussions of creating a separate district have been going on for more than 25 years.

Changes to the property tax system made in 1997 by Ballot Measure 50 has caused problems for library funding and made creating a separate taxing district a more viable option. Under Measure 50's rate-based property tax scheme, county property taxes are based on the total assessed value of the county. The prolonged real estate slump has restricted increases in property tax revenues the last several years.

The Library local option levy has actually declined, year over year, for two straight years. This is due to the fact that local option levies are compressed first under the limitations of Ballot Measure 5 (1990) and the amount of compression has been increasing due to higher tax rates for general governments and declining real market values as compared with assessed values.

Library Local Option Levy	2008-09	2009-10	2010-11	2011-12
Taxes Imposed	41,173,696	41,381,417	39,516,227	34,880,471

Creating a library district is advantageous to the county in (at least) four ways: 1) it frees up General Fund money to be used for other services since the county's permanent tax rate limit of \$4.3434 would remain intact; 2) the Library District levy would be subject to Measure 5 compression along with other permanent tax rates rather than being compressed first as a local option levy; 3) the higher rate (and less Measure 5 compression) would allow the library to restore hours and services that have been reduced in recent years, and; 4) a permanent rate would provide stable, long term funding so the county would not have to return to voters every three to five years to get the temporary levy renewed.

The county estimates the levy in the first year (2013-14) will bring in \$68,308,435 in property taxes. This is considerably more than the current local option levy would bring in. TSSC's estimates for both levies in 2013-14 are shown below and indicate the permanent rate limit taxes imposed would bring in nearly \$35 million more than the local option levy.

Levy	AV	Rate	Tax Ext.	M-5 Comp %	M-5 Comp \$	Taxes Imp.
Local Option	61,700,608,678	0.8900	54,913,542	-37.0%	-20,318,011	34,595,531
Perm. Rate	61,104,812,886	1.2400	75,769,968	-5.5%	-4,167,348	67,664,476

*The assessed value is different due to the local option levy not being subject to division of tax from certain urban renewal plan areas while the permanent rate limit would be subject to division of tax for all urban renewal plan areas. Both levy's taxes imposed amount have been reduced an additional 5.5% to account for discounts and other amounts not to be collected.

This increase in property tax revenue will be offset by a reduction in financial support from the county's General Fund, which has contributed significantly to the library's operations over the last few years. In 2011-12 revenue from current and prior year property taxes accounted for roughly 52% of the available resources for the county's library system, including transfers from the General Fund and beginning fund balances. In the current 2012-13 fiscal year those same sources comprised only 48.6% of total library resources. The decrease was the result of declining current year property taxes due to more Measure 5 compression and a corresponding increase in General Fund Support.

If the library district passes the percentage of library resources coming from property taxes would increase to 85% as indicated by the chart below.

The additional revenue provided by the measure would allow the library to restore cuts in services and hours that have been required the last couple of years as the local option levy brought in less revenue. This was especially true starting July 1, 2012 as expenditures in the 2012-13 fiscal year were cut by nearly 7%. According to the county, services were cut by 14% including reducing hours that libraries were open to 44 hours per week, the fewest hours of operation of any library in the region.

Library Resources	2009-10 Actual	2010-11 Actual	2011-12 Revised	2012-13 Adopted	2013-14 Estimated
Beginning Balance	20,290,968	19,094,556	15,256,276	5,664,963	8,125,266
Current Year Taxes	39,161,737	37,395,863	34,596,002	31,824,583	67,664,476
Prior Year Taxes	1,114,070	1,079,055	820,962	732,489	0
Other Revenue	5,150,394	4,084,852	4,102,452	3,827,888	3,827,888
GF Transfers	13,927,775	15,093,244	14,445,810	24,879,184	0
Total Resources	79,644,944	76,747,570	69,221,502	66,929,107	79,617,630

The county's goal would be to restore services and hours to those maintained during the 2011-12 fiscal year. The number of full-time equivalent positions (FTE) would increase from 450.75 budgeted in the current year's budget to 494.00 FTE in 2013-14 (the same number as in 2011-12).

What complicates things somewhat is that the library currently reimburses the county for various administrative services, mostly provided by the General Fund. This has amounted to approximately \$20 million last year and again this fiscal year. As a separate legal entity the library will be required to provide all of the same internal functions as any other unit of local government – administration, human resources, budget/accounting and facility maintenance. As a part of Multnomah County, the library reimbursed the county for these services as internal service reimbursements. As a separate entity, the library will either have to provide these services for itself or contract with the county to continue to provide them under an intergovernmental agreement.

Library Requirements	2009-10 Actual	2010-11 Actual	2011-12 Revised	2012-13 Adopted	2013-14 Estimated
Personnel Services	36,065,601	38,261,157	31,043,062	28,506,599	42,810,242
M & S	24,249,648	21,748,232	11,850,612	10,020,493	13,578,733
Capital Outlay	235,140	128,900	737,808	0	0
Admin. Services	N.A.	N.A.	19,575,426	20,276,704	11,790,330
Contingency/EFB	19,094,556	16,609,281	6,014,594	8,125,266	11,438,325
Total Requirements	79,644,945	76,747,570	69,221,502	66,929,062	79,617,630

Tax Impact on Property Owners

In the simplest terms, Measure 26-143 will increase property taxes for Multnomah County property owners. The tax rate for library services would increase from the current \$0.8900 per \$1,000 of assessed value for the local option levy to \$1.2400 for the permanent rate limit. For every \$100,000 of assessed value, a property owner will pay \$35 more in property taxes.

However, that is before any possible Measure 5 compression, which dramatically complicates the effects of the measure. There are two considerations that have to be taken into account when analyzing the tax impact of the county's library district and permanent tax rate limit measure: 1) some properties are already paying the maximum allowed under the Measure 5 limits, and 2) compression is calculated differently for permanent tax rate levies as opposed to local option levies.

In order for an individual property to be under compression, the total of all non-education tax rates has to exceed the maximum allowed under Measure 5 of \$10 per \$1,000 of real market value (RMV) and the ratio of assessed value to RMV for the property has to be less than the ratio of the \$10 limit to the total non-education tax rate.

For properties in Fairview, Troutdale and Wood Village properties will pay the extra property taxes if the measure passes since the general government tax rate is less than ten dollars. This will occur even if the assessed value and RMV are the same (ratio of assessed value to RMV is 1.00). Each property will pay the entire increase of \$0.35 per \$1,000 of assessed value.

Most areas within the City of Gresham have non-education tax rates that are below the \$10 limit. However, portions of the city have a tax rate that is very close to the \$10 limit and the extra \$0.35 that will be added if the library measure passes will result in a tax rate that is slightly above the \$10 limit. The tax rate for the City of Maywood Park was \$10.2501 in 2011-12. Adding \$0.3500 would result in a total non-education rate of \$10.6001. Properties inside the city could therefore be in compression.

For properties subject to a tax rate higher than \$10 the second condition must also exist in order for the limits of Measure 5 to affect the amount of property taxes the owner is required to pay. In the City of Maywood Park the ratio of the \$10 Measure 5 limit to the non-education tax rate if the library measure passes would be .9434 ($10.0000 / 10.6001$). For any property with an assessed value of \$100,000, if the RMV is less than \$106,000 compression will occur ($100,000 / .9434$). If the RMV is over that amount there will be no compression.

The situation inside the City of Portland is much different since the tax rate is significantly higher. In 2011-12 the operating tax rate for all non-education districts was \$14.1813. If the measure passes the tax rate, assuming other levies stay the same, would be \$14.5313 with a limit ratio of .6882. Any \$100,000 assessed valued property with an RMV of under \$145,307 ($100,000 / .6882$) would be compressed while those with an RMV above that amount would not be under compression.

How much compression loss and therefore how much additional taxes a property will pay if the measure passes depends on where the property is located and the ratio of assessed value to RMV.

If the measure fails the county's library local option levy would still be in effect for the 2013-14 tax year at the current rate of \$0.8900 per \$1,000 of assessed value. Property taxes would decline for properties not under compression starting in 2014-15. For those properties that are under compression property taxes could remain the same even after the expiration of the local option levy since the property is already paying the maximum amount allowed under Measure 5.

Tax Impact on Overlapping Jurisdictions

Measure 26-143 is unique in that not only will it affect property owners within Multnomah County but it will also affect overlapping, non-education taxing districts such as cities, Metro, Port of Portland and the two soil and water conservation districts. This is due to property tax limitation measures 5 (1990) and 50 (1997).

If an individual property is under Measure 5 compression (see discussion above), the county assessor must reduce all of the levies in each of the two categories (public education and non-education) so that the category total is reduced to the maximum allowed. So increasing the rate from \$0.8900 to \$1.2400 will increase the amount of reduction needed to keep the total taxes imposed within the non-education limit of \$10 per \$1,000 of real market value.

Measure 50 made a significant change in how Measure 5 compression works. Before the passage of Measure 50 in 1997, all levies were compressed on a prorated basis, including temporary levies (serial levies as they were referred to then). One of Measure 50's major changes was to require county assessors to compress temporary levies (now called local option levies) first before permanent rate levies are compressed. Only after temporary levies are compressed to zero do other levies get compressed. This change was made so that temporary levies did not impact collections for other districts' operating levies.

In this case, the county's local option levy is compressed first and all the way to zero before the levies for cities, Metro, Port of Portland and the soil and water conservation districts are compressed at all. But changing from a local option levy to a permanent rate limit levy changes the library levy from temporary status to permanent status, meaning it will not be compressed first, but rather will be compressed along with all of the other permanent rate levies and the City of Portland's Fire and Police Disability and Retirement (FPD&R) levy and urban renewal taxes.

The impact of this change will be most dramatic within the City of Portland since the tax rate within the city is the highest and therefore there is much more Measure 5 compression. For many properties in Portland that are already under compression, the property tax bill will remain essentially the same if the measure passes. That is because the property is already paying the maximum amount allowed under Measure 5.

A detailed analysis of a typical property's tax bill in 2011-12 reveals that for a property with an RMV of \$250,000 and an AV of \$216,000 (AV to RMV ratio of .8640), the property owner paid \$2,500 for all non-education levies (RMV of \$250,000 x M-5 limit of \$10.000 per \$1,000 of RMV). (See Chart below) Because the library levy was a temporary levy, it was compressed to zero and that property paid nothing toward library operations.

By way of illustrating how Measure 5 compression works, that same property's tax bill was recomputed assuming the library levy was a permanent levy, keeping the rate at \$0.8900 for comparison purposes. The total for all non-education districts stayed the same at \$2,500. However, the elevated status of the library levy means that it wasn't compressed to zero but rather it was compressed with all other non-local option operating levies and urban renewal (after the remaining temporary levies were all compressed to zero). The property would now pay \$148.42 toward library operations.

But since the total non-education taxes imposed remained the same at \$2,500, that \$148.42 came at the expense of all of the other levies. The City of Portland's permanent rate limit's share of the \$2,500 was reduced from \$817.47 to \$763.71, a reduction of \$53.76. Multnomah County's permanent rate levy lost \$50.99 (\$755.42 – \$724.43). Other districts lost smaller amounts, down to West Multnomah SWCD which would have seen its taxes imposed on this property reduced by \$0.81.

And of course the impacts are even more dramatic if the full \$1.2400 per \$1,000 of assessed value permanent rate is used. Again, the maximum amount of non-education property taxes this property could pay is \$2,500. Any increase in how much the library is to receive would have to come at the expense of other district's levies. The property illustrated below would now pay \$201.57 toward the library district. The City of Portland's taxes imposed would be reduced by \$73.01 and Multnomah County would lose \$69.25.

Multnomah County estimated what other overlapping districts would have lost in 2011-12 with a Library District permanent tax rate of \$1.1800. The City of Portland's General Fund would have been reduced by \$6.3 million and its Children's Investment Local Option Levy would have lost \$1.1 million. The County's General Fund would have been impacted to the amount of \$6.0 million. Collections for the Oregon Historical Society's Local Option Levy would have dropped by \$173,000. The City of Gresham, with a much lower general government tax rate, would have lost \$547.

City of Portland Economist Josh Harwood estimates that the City's General Fund will suffer a loss of \$8 to \$9 million with a library permanent tax rate of \$1.2400

Ironically, urban renewal collections actually benefit from a Library District and a higher tax rate for library operations. There are two reasons for this: 1) recently approved local option levies are not subject to division of tax for certain plan areas while permanent rate limits are subject to division of tax from all plan areas, and 2) the higher tax rate (from \$0.8900 to \$1.2400) is multiplied by the same urban renewal excess value to arrive at a higher tax amount that is divided (given) to the urban renewal agency.

TSCC estimates that if the Library District had been in existence in 2011-12 and levied a permanent rate limit of \$1.2400 per \$1,000 of assessed value, Portland Development Commission's urban renewal division of tax amount would have increased by over \$2,000,000 before Measure 5 compression. Gresham, Troutdale and Wood Village urban renewal agencies would likewise have seen increased collections of \$299,000, \$6,100 and \$1,940 respectively.

City of Portland Property		Real Market Value:		\$250,000				
County Library Local Option Levy		Assessed Value:		\$216,000				
District / Levy Type	Tax Rate	UR Adj. Rate	Taxes Extended	Local Option Ratio	Prelim. Taxes Imposed	M-5 Comp. Ratio	Taxes Imposed	M-5 Loss
General Government:								
Multnomah County	4.3434	3.9219	847.13	N.A.	847.13	0.91534	775.42	(72)
Metro	0.0966	0.0878	18.96	N.A.	18.96	0.91534	17.36	(2)
Port of Portland	0.0701	0.0638	13.78	N.A.	13.78	0.91534	12.61	(1)
City of Portland:								
Permanent Rate	4.5770	4.1346	893.07	N.A.	893.07	0.91534	817.47	(76)
FPD&R Levy	2.4682	2.2299	481.66	N.A.	481.66	0.91534	440.88	(41)
Urban Renewal Div. of Tax	N.A.	1.8518	399.99	N.A.	399.99	0.91534	366.13	(34)
Urban Renewal Special Levy	0.2926	0.2926	63.20	N.A.	63.20	0.91534	57.85	(5)
West Multnomah SWCD	0.0732	0.0621	13.41	N.A.	13.41	0.91534	12.28	(1)
Local Option Rates:								
Multnomah Co. Library LO	0.8900	0.8105	175.07	0.00000	0.00	0.91534	0.00	(175.07)
Multnomah Co. Historical LO	0.0500	0.0459	9.91	0.00000	0.00	0.91534	0.00	(9.91)
City of Portland Childrens LO	0.4026	0.3669	79.25	0.00000	0.00	0.91534	0.00	(79.25)
Urban Renewal LO	N.A.	0.3135	67.72	0.00000	0.00	0.91534	0.00	(67.72)
General Government Sub-Total		14.1813	3,063.16		2,731.21		2,500.00	(563.16)
M - 5 limit		10.0000	2,500.00					
Total Taxes Imposed and Measure 5 Compression Loss:							2,500.00	(563.16)

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District / Levy Type	Tax Rate	UR Adj. Rate	Taxes Extended	Local Option Ratio	Prelim. Taxes Imposed	M-5 Comp. Ratio	Taxes Imposed	M-5 Loss
General Government:								
Multnomah County	4.3434	3.9219	847.13	N.A.	847.13	0.85515	724.43	(123)
Multnomah County Library District	0.8900	0.8035	173.556	N.A.	173.556	0.85515	148.42	(25)
Metro	0.0966	0.0878	18.96	N.A.	18.96	0.85515	16.22	(3)
Port of Portland	0.0701	0.0638	13.78	N.A.	13.78	0.85515	11.78	(2)
City of Portland:								
Permanent Rate	4.5770	4.1346	893.07	N.A.	893.07	0.85515	763.71	(129)
FPD&R Levy	2.4682	2.2299	481.66	N.A.	481.66	0.85515	411.89	(70)
Urban Renewal Div. of Tax	N.A.	1.9383	418.67	N.A.	418.67	0.85515	358.03	(61)
Urban Renewal Special Levy	0.2926	0.2926	63.20	N.A.	63.20	0.85515	54.05	(9)
West Multnomah SWCD	0.0732	0.0621	13.41	N.A.	13.41	0.85515	11.47	(2)
Local Option Rates:								
Multnomah Co. Historical LO	0.0500	0.0459	9.91	0.00000	0.00	0.85515	0.00	(9.91)
City of Portland Childrens LO	0.4026	0.3669	79.25	0.00000	0.00	0.85515	0.00	(79.25)
Urban Renewal LO	N.A.	0.2340	50.54	0.00000	0.00	0.85515	0.00	(50.54)
General Government Sub-Total		14.1813	3,063.16		2,923.45		2,500.00	(563.16)
M - 5 limit		10.0000	2,500.00					
Total Taxes Imposed and Measure 5 Compression Loss:							2,500.00	(563.16)