

**RESOLUTION NO. 1053**

**A RESOLUTION ENDORSING BALLOT MEASURE NO. 1, SALES TAX FUNDING FOR EDUCATION.**

WHEREAS, the Wilsonville City Council recognizes that adequate funding for our schools is essential to our quality of life, our economic development and the future of our community; and

WHEREAS, public school funding is presently declining and will continue to decline unless a stable funding source is provided; and

WHEREAS, the ongoing public school funding crisis seriously jeopardizes the availability of state shared revenues which are so vitally important to local jurisdictions, including the City of Wilsonville; and

WHEREAS, Ballot Measure 1 is dedicated to schools and will provide stable, adequate funding for our public schools, preventing damaging cuts in both public education and state shared revenues; and

WHEREAS, Ballot Measure 1 provides property tax relief for owner-occupied homes; and

WHEREAS, Ballot Measure 1 provides voter control by incorporating important features of the measure into the State Constitution so that the sales tax rate, the dedication of funds to public schools and the homeowner property tax relief provisions, among others, cannot be changed except through a statewide vote of the people;

NOW, THEREFORE, THE CITY OF WILSONVILLE RESOLVES AS FOLLOWS:

1. That the Wilsonville City Council endorses Ballot Measure 1 and recommends a yes vote on November 9, 1993.

ADOPTED by the City Council of the City of Wilsonville at a regular meeting thereof this 4th day of October, 1993, and filed with the Wilsonville City Recorder this same date.

  
GERALD A. KRUMMEL, Mayor

ATTEST:

*Vera A. Rojas*  
VERA A. ROJAS, CMC/AAE, City Recorder

SUMMARY of Votes:

Mayor Krummel	<u>AYE</u>
Councilor Carter	<u>ABSTAIN</u>
Councilor Hawkins	<u>AYE</u>
Councilor Lehan	<u>AYE</u>
Councilor Van Eck	<u>NO</u>

## Draft Resolution Calling for Mutual Community Commitment In Response to Ballot Measure 1

WHEREAS, the City Council of \_\_\_\_\_ envisions our City as a safe, "livable" community where citizens enjoy quality education, health and other human services, necessary public infrastructure, economic opportunity, and a clean environment; and,

WHEREAS, our community's livability depends on our ability to assure that all of these elements are available in balance in our community; and

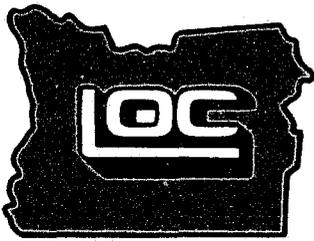
WHEREAS, we join other community leaders who are concerned that our children must have the opportunity for a quality education; and,

WHEREAS, although Ballot Measure 1 addresses the issue of funding for quality education, it does not address the other components of livability, which are also necessary to ensure a healthy community.

NOW, THEREFORE, BE IT RESOLVED, that the members of the City Council of \_\_\_\_\_ invite other leaders in the community with an interest in healthy communities to commit to working together here in the city and at the State level to assure that we will have adequate authority and resources to make our city a community which meets the needs of our residents; and

BE IT FURTHER RESOLVED that in so doing local government and other community leaders pledge to pursue improvements to the tax and governance system which support local decision making and do not reduce the ability of any one of the partners to provide necessary services to the community.

BE IT FURTHER RESOLVED, that City Council members believe that these common commitments must be made before the Council will contemplate any position on Ballot Measure 1, other than neutrality.



# League of Oregon Cities

Local Government Center, 1201 Court St. N.E., P.O. Box 928, Salem 97308 • Telephone: (503) 588-6550; 1-800-452-0338 toll free; FAX: 378-5859

September 21, 1993

TO: Mayor and Council  
FROM: Dick Townsend, LOC Director  
RE: Ballot Measure 1, the Sales Tax

Enclosed is our staff analysis of the sales tax measure which has been placed on this November's ballot. A position statement, which the League of Oregon Cities' Board of Directors recently adopted, is also included along with a draft resolution which we hope you will use in discussions of this measure with other leaders in your community.

The LOC position statement was discussed with the Mayors' Board of Directors during a September 20th conference call. The Mayors' Board endorsed the League position as one which provides a responsible direction for cities, given the political diversity that exists in communities throughout the state.

You'll note from the League's position statement that each city is asked to evaluate its own individual situation with respect to Measure 1. However, the statement emphasizes how important it is that leaders of the education and business communities within your city acknowledge the need to ensure that local governments can provide the services required to support a healthy community. Board members urge you to seek commitment from community leaders and local legislators to work locally and at the state level to ensure that local governments have the authority and resources required to perform our role in ensuring healthy communities.

Also enclosed are staff summaries on legislative actions affecting local options and state shared revenues.

League staff will soon be traveling around the state to present a wrap up of the 1993 legislative session. The sales tax measure will be part of that discussion. Our schedule for the ten regional meetings is found in the September League newsletter, and we hope you will plan to attend.

Best wishes.

Sincerely,

Richard C. Townsend  
Executive Director

## LEGISLATIVE TAX REFORM PROPOSAL HJR 10/HB 2500/HB 2443

HJR 10 amends the Oregon Constitution. None of the constitutional provisions listed can be changed except by a statewide vote of the people. They cannot be changed by the Legislature. These amendments have the following effects:

- **Sales tax monies must be used for public education programs.** These include kindergarten and community colleges.
- **Sales tax limits are established.** The maximum rate for the state general sales tax is limited to 5%. Local general sales taxes are prohibited. Exemptions are required for food for home consumption, shelter, prescription medicines or devices, water, light, heat, power, motor vehicle fuel, essential services, and feed, seed and fertilizer for farm production.
- **Property taxes for school operations are eliminated for owner-occupied principal residences.** This requires a tax reduction of \$5 per \$1000 of home value below Measure 5 limits. Owner-occupied homes will still pay property taxes for school bonds, and for other government services and bonds, such as city, county and special district levies. Other types of property will continue to pay taxes for school operations.
- **State spending is limited.** Specifically, the growth in spending out of income and sales taxes is limited to inflation plus the rate of growth in population. Expenditures can only exceed this limit in emergencies if approved by at least 60% of each house of the state Legislature, and if approved by the Governor.
- **At least one-half of net Lottery funds would have to be used for education and children's needs.** The Constitution currently requires that all of the funds be used for job creation and economic development.
- **All changes listed above and below are temporary unless voters choose to continue them in 1998.** All of these provisions, as well as the statutory provisions listed below, are automatically repealed unless voters approve continuing them in the 1998 general election.

HB 2500 and HB 2443 also implement many statutory provisions. Statutory provisions may be changed without a vote of the people. The statutory provisions include:

- **Begins a sales tax on May 1, 1994.** The tax would be on goods only, not services and would have many exemptions, including those listed earlier.
- **Increases the corporate income tax rate from 6.6% to 7.6%.** The increase begins in 1994.
- **Adds an earned income credit.** The personal income tax would contain a credit, beginning in 1994, equal to up to half of the federal earned income credit. The effect will be to reduce the taxes of working families with dependent children. Families would generally qualify if their income is under \$24,000 per year.
- **Establishes a low income sales tax credit.** This credit is intended to refund part of the sales tax paid by lower income households. The amount of the credit depends upon household income and size.
- **Appropriates an additional \$351 million to schools for the 1994-95 school year.** This will come from sales taxes collected before July 1, 1995.
- **Establishes an Education Trust Fund.** All remaining sales taxes collected before July 1, 1995 (up to \$300 million) are put into an Education Trust Fund. The trust fund earnings will then be dedicated to education reform and improvement programs.
- **Repeals property taxes on certain business property.** To qualify, the property must be essential to a production process and be designed to be generally moveable.

*From: Legislative Revenue Office 8/4/93*

**BALANCE SHEET**  
**LEGISLATIVE TAX REFORM PROPOSAL**  
**HB 2500/HB 2443**

	<u>1993-95</u>	<u>1995-97</u>	<u>1997-99</u>
Net sales tax revenue	\$1,189	\$2,613	\$2,895
Corporate to 7.6%	46	69	77
<b>TOTAL GROSS REVENUE</b>	<b>\$1,235</b>	<b>\$2,682</b>	<b>\$2,972</b>
Feedbacks	25	25	28
Earned income credit	(29)	(44)	(48)
Low income sales tax credit	(14)	(44)	(40)
Repeal OOPR school taxes	(304)	(682)	(784)
Business property tax reductions	(6)	(14)	(27)
Accelerate Measure 5	(358)	0	0
Education Trust Fund	(162)	26	26
<b>TOTAL REVENUE REDUCTIONS</b>	<b>(\$848)</b>	<b>(\$733)</b>	<b>(\$846)</b>
<b>TOTAL NET REVENUE</b>	<b>\$387</b>	<b>\$1,948</b>	<b>\$2,127</b>
State School Fund Appropriation	(351)		
Beginning balance		36	
<b>TOTAL RESOURCES</b>		<b>\$1,985</b>	
50% of Lottery to Education	\$0	\$182	\$200
<b>HB 2500 FUNDING</b>			
Reduced budget shortfall		\$1,367	
Education equalization and improvement as per HJR 10		581	
<b>TOTAL</b>		<b>\$1,948</b>	

Note: All figures are in millions of dollars.

This balance sheet is consolidated to show the impact on all state and local government funds.

Effective dates:

Sales tax: May 1 1994

Personal and corporate income tax changes: January 1, 1994

Retailer compensation sunsets

**1993 TAX REFORM PROPOSAL**

**HJR 10 / HB 2500 / HB 2443**

**HJR 10:**

**5% MAXIMUM SALES TAX**

EXEMPTIONS, INCLUDING ESSENTIAL SERVICES

BANS LOCAL GENERAL RETAIL SALES TAX

DEDICATES SALES TAX TO PUBLIC EDUCATION

NO PROPERTY TAXES FOR SCHOOL OPERATIONS ON OWNER-OCCUPIED RESIDENCES

ACCELERATES BM5 RATES

STATE SPENDING LIMIT

EMERGENCY OVERRIDE PROCEDURES

ONE-HALF NET LOTTERY PROCEEDS

EDUCATION AND CHILDREN'S PROGRAMS

REVOTE IN 1998

**HB 2500:**

SALES TAX ON GOODS BEGINS MAY 1, 1994

EXEMPTIONS

5% OR REDUCED RATE OF 3%

CORPORATE INCOME TAX INCREASE

INCREASES 1994-95 SCHOOL APPROPRIATION BY \$351 M

EDUCATION TRUST FUND

EXPECTED REVENUE IMPACT FOR 1995-97

NET SALES TAX \$2.6 BILLION

NET BENEFIT TO EDUCATION \$1.9 BILLION

**HB 2443:**

LOW INCOME SALES TAX CREDIT/REFUND

LOCAL PROPERTY TAXES ELIMINATED ON PROPERTY THAT QUALIFIES FOR REDUCED SALES TAX RATE

## LOC Overview of HJR 10, HB 2500 and HB 2443

LOC's overview of the tax reform proposal notes, by checkmark, those items which have direct impacts on local government. A brief summary of those impacts follow.

1. HJR 10 sets forth a number of exemptions in the Constitution itself, e.g. "food for home consumption, shelter, prescription medicines or devices, light, power, motor vehicle fuel, essential services, and food, seed and fertilizer for farm production." HB 2500 adds a number of statutory exemptions and defines the extent of the Constitutional exemptions. The extent of any exemption for government purchases relies entirely on HB 2500 described under (5) below.

2. Local general retail sales taxes are banned by HJR 10. The Chairs of both Revenue Committees, anticipating questions, individually established a record of discussion that the intent of the ban did not affect revenues such as hotel/motel taxes (which are not a sale of personal property) or local taxes which are specific to the sale of selective property. This provision was added to HJR 10 in the Senate: "Nothing in this section shall affect any state or local special excise tax or its use or dedication." (This provision does not, however, protect such revenues from preemption by the state; it merely clarifies that the state sales tax provision does not preempt them.)

3. Property taxes for school operations on owner-occupied residences would be abolished. Some have asked for a clarification on the impact of this provision on the tax increment levies of urban renewal districts. Technically, the reduction in owner-occupied school property taxes operates similar to a state-funded homestead exemption. The assessed values stay on the tax roll and the tax rate is calculated, but the tax is not imposed. The structure of this would not be expected to affect tax increment finance. In the very long term, however, some impact on tax increment could occur as the need for increasing local tax rates for schools diminishes.

4. One-half of the lottery proceeds would be dedicated to education and children's programs. Lottery proceeds are now dedicated to economic development. One-half would be diverted to pay for education and for children's programs (which would be administered in part by the counties). Net lottery proceeds for this year for economic development totalled about \$346 million, of which about \$177 million is expected from video lottery receipts.

Since video lottery proceeds have more than doubled the amount of lottery funds available, the effect of diverting funds from economic development would not appear to have great significance. However, if the Oregon Supreme Court decides that video lottery is unconstitutional, the impacts would become extremely significant. In this session, about 39% of the net lottery was planned to be spent on programs for education and children.

5. Not all government purchases will be exempt from the sales tax. HB 2500 utilizes concepts found in the 1983 and 1985 sales tax proposals regarding sales to and purchases by local and state government. These actions are only partially exempt from the sales tax. Although the League urged the Legislature to provide a complete exemption for government purchases similar to the majority of other states, the Legislature chose a "partial exemption" which, in reality, could be difficult to manage, as well as have a fiscal impact on government, which includes state, city, county, school and special district governments. For cities, the taxation of some purchases will require that the sales tax costs are passed through to the sale of larger bond issues, higher utility user fees, and property taxes increase, or if revenues are not available, to reduced services. The annual fiscal impact on cities for nonexempt purchases is roughly estimated to be about \$13 million.

Governments will also be required to collect sales taxes on their retail sales of goods.

6. The sales tax maximum is 5%, but some purchases will be taxed at a reduced rate. The sales tax has a provision enabling businesses to pay a reduced sales tax of 3% when the business purchases personal property (machinery or equipment) used in production. A reduced sales tax rate is permitted because the Constitution would set forth a maximum, not uniform, rate. The Associated Oregon Industries had unsuccessfully requested a complete exemption for production equipment and machinery. Instead, they received a special sales tax rate which reduces the sales tax on such purchases by about \$93 million annually. (However, the Legislature chose also to provide local property tax exemptions for the type of equipment and machinery which would receive the reduced sales tax rate. HB 2443, discussed in Section 8 below, contains this related provision.

7. Cities and Counties had unsuccessfully lobbied for a share of the increased revenue from the sales tax, or alternatively, from income tax revenues which would be backfilled by the sales tax for education. Although the Senate Revenue Committee initially supported this idea, support eroded in the last weeks. The House insisted upon a tax strategy narrowly targeted to education. A scaled-back version of local government assistance was introduced in the Senate plan. The first concept, a dedicated share of state-collected revenue for local government, was replaced by a one-time capitalization of \$300 million County-City Trust Fund from 1994-95 revenues. In Conference Committee, the County-City Trust idea was converted into an Education Trust Fund, the proceeds of which would be used for education reform and improvement programs.

8. After passage of the sales tax bill and the proposed Constitutional amendment, an amendment affecting the property tax resources of local governments was added to an unrelated bill, HB 2443. In the final days of the Session, a provision establishing a new property tax exemption contingent upon passage of the sales tax was added, despite the objections of local government. The subject of the ad valorem tax exemption is the business machinery and equipment used in production that would be purchased at the reduced sales tax rate of 3%.

Over time, as property depreciates and is replaced, the amount of exempt property would grow until all property is exempt. "Full implementation" would occur, presumably, at some time within a ten-year depreciation cycle. Some very rough estimates of the amount of exempt property, when fully phased in, have been made by the Legislative Revenue Office. The expected impact of this ad valorem tax exemption is \$6 million for 1993-94; \$14 million in 1995-97; and \$27 million in 1997-99. When fully implemented, the school property tax loss will be \$15 million and the nonschool loss will be \$12 million a biennium. The revenue impact estimates are for all local governments. Tax shifts would also result in those areas where nonschool local governments are limited by the \$10 cap. The tax shifts for 1995-97 are slightly higher than the estimated tax losses. It is difficult to predict the amount of loss or shift since it depends on how many areas will be subject to the \$10 rate limit in the next decade.