# MEMORANDUM

Date: March 28, 2016

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

Re: **Article from Governing Magazine**

I am attaching a recent editorial article from *Governing Magazine* with regard to tax policy and fiscal inequities states impose on local governments. The article relates directly to Oregon, but the specifics are identical to Arizona. Unfortunately this is where we find ourselves today with constitutionally limiting revenue production measures as well as state transferred components of their previous fiscal responsibility to local governments.

CHH/lab

Attachment

c: Tom Burke, Deputy County Administrator for Administration
Keith Dommer, Director, Finance and Risk Management

By Frank Shafroth

# Handcuffed Cities

## Is anyone trying to balance the fiscal inequities states impose on their localities?

In our current federal system, states are endowed with the right to chart their fiscal destinies. Each state can choose which kinds of taxes it wishes to impose—and what rates and rules will apply.

Not so with municipalities. States can, and do, impose fiscal straitjackets on local governments, defining their authority or lack thereof to levy certain kinds of taxes, or even how such taxes may be assessed, applied or collected. At the same time, they require local governments to balance their budgets, keep their debt under control, and promise more to retirees than can be paid.

While there seems little disposition for federal, state and local governments to sit down together and consider this unbalanced fiscal dilemma, there might be a sign of recognition of the quandary by the Oregon Legislature. For starters, it directed the Legislative Research Office to prepare an analysis of options for restructuring Oregon's state and local revenue system, a report that was recently completed.

The situation in Oregon is complicated by initiatives statewide voters imposed. A property tax revolt, which began in 1990 with Measure 5, limited property taxes to 1.5 percent of a home value, thus disassociating local revenues from local expenses. Notwithstanding Measure 5's artificial limit, rapidly rising home prices meant that local property taxes continued to escalate—as did tempers. So six years later Oregonians adopted Measure 47, which rolled back property tax assessments to the prior year's levels—minus an additional 10 percent—and imposed a 3 percent a year cap on annual increases. The following year, voters adopted Measure 50, which imposed changes that clarify how the system would work. In effect, the measures permanently disconnect property tax levies from present-day property values.

As housing prices continue to rise, the initiative helps ensure that Oregonians can afford to stay in their homes. But it also severs the umbilical cord that enables local elected leaders to balance citizens' needs with the ability of the government to pay for them.

The series of tax limitations made Oregon the only state in which assessed values do not reset to market value each time a property is sold—creating a different kind of governance challenge. Tax-relief benefits have been concentrating in gentrifying neighborhoods that have experienced rapidly rising home values. This is leading to inequities in property tax bills for homes of equivalent values. In effect, it has made tax policy a tool for inequity, even as it has imbalanced cities' abilities to govern.

These state-imposed rules and limitations have created a perverse system in which every April, local governments confront a huge challenge: How to guesstimate the revenues that their levies will generate. Of the four variables that go into the calculation, only one (the tax rate) is known in April, but even that will end up caught in the buffeting winds of the state's property tax system. Ergo, the daunting challenge of estimating tax revenues for local budgets has become more one of throwing darts than precision math. It is not, after all, until the assessor releases the tax data early in November (some seven months later) that the municipal budget architects can truly assess how accurate their guesstimates were. It is akin to blindfolding governance.

There would be singular benefits to reconnecting property taxes to real market values and creating uniformity of taxation for properties having the same market value. The Oregon League of Cities has long been working on possible solutions. The state could intervene and replace the lost revenue—although this comes with a risk for local governments. Should the state opt to address the current inequities through the provision of some kind of property tax credit to homeowners, the replacement of lost revenue by the state would need to be constitutionally mandated to protect cities from subsequent legislative actions. State largess is not as sure as the proverbial death and taxes. G

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