



CITY OF GRESHAM

April 23, 2019

Representative Alissa Keny-Guyer, Chair
House Committee on Human Services and Housing
Oregon State Capitol
900 Court Se. NE
Salem, OR 97301

Re: SB 543

Dear Chair Keny-Guyer and Members of the Committee,

While the City of Gresham opposes SB 543, we laud the ambition represented by the bill to enhance services for children. Spearheaded by our Mayor and Council’s clear priority around children and families, Gresham has substantially increased recreation opportunities in recent years, and partnered with non-profit providers of children’s services to locate in Gresham, including Friends of the Children, the Boys and Girls Club, Family of Friends Mentoring, and the Portland Opportunities Industrialization Center. Services for children make communities stronger, but the City of Gresham has substantial concerns with the vehicle to achieve this outcome proposed by SB 543.

While meritorious in its intent, the creation of a new special property-taxing district to deliver children’s services could threaten the effectiveness of existing property-tax-based service providers to deliver other critical services like police and fire/emergency medical services. In some cases, it could also create significant inequities between the taxing burden of residents in different jurisdictions within a proposed district.

Impacts of Measure 5 Compression:

The chief concern of the City of Gresham is that the creation of a children’s special district in Multnomah County could have substantial negative impacts on the City’s ability to collect property taxes and provide services. In Gresham, by policy, 100% of the City’s property tax revenues go to fund public safety services, so any losses from property tax compression have

direct impacts on the number of police officers on the streets, and on the City's fire/emergency medical staffing.

SB 543 would grant children's special districts the right to collect a permanent property tax rate, and because Section 2(1)(b) places the entire burden on the general government side of the equation, municipal service providers would be heavily impacted in years when Measure 5 compression is triggered. In a compression environment, all of the permanent rates of general government taxing jurisdictions in an area are reduced, or "compressed" until the total tax bill assessed on a property is \$10 per \$1,000 of Real Market Value (RMV). Allowing a new taxing district to operate in this arena would cause compression to be triggered even sooner, and would compress the revenues cities and counties are able to collect even more. Providing services for children and providing high quality public safety services should not be mutually exclusive, and the Legislature should not create a scenario where one must naturally come at the cost of the other.

Compression impacts change with market conditions, and are reduced in years with heavy market value growth. It's possible, depending on the rate collected by a district, and the conditions in any given year's real estate market, that the compression impacts could be decreased. However, in slightly different market conditions, they could be substantial.

For example, and for purposes of scale, if a countywide children's service district had been approved in Multnomah County in 2013/14 at a permanent rate of \$1.00 per \$1,000 TAV (categorized as general government), the City of Gresham estimates that, the City and its urban renewal agency would have lost around \$840,000 in revenue, with additional impacts occurring on other general government taxing districts as well. Even in relatively good market years, the compression impacts could be significant. If the district were in place for the 2017/18 tax year, for example, the City estimates net losses of around \$420,000 due to additional compression. Children's services are important, but we shouldn't rob public safety services, social safety-net services provided by the County, library services (which heavily benefit children), economic development services, and parks and recreation services to provide them.

At Senator Monnes-Anderson's request, and for purposes of identifying a scope of magnitude, the Legislative Revenue Office (LRO) conducted a compression scenario to see what the impact of a children's services district (as proposed in SB 543) would have been, had one been operating in Multnomah County in 2013 at a permanent rate of \$1 per \$1,000 of taxable assessed value. Countywide, LRO estimates that the impact to general government could have been \$30 million in compression losses (inflating countywide compression losses from around 9% to around 12%). Those losses would have been substantially borne by Multnomah County and the cities within it, not to mention the damage that would have been done to the Oregon Historical Society Levy and the Metro Open Space Levy, which would have compressed first.

In addition, even in years when market value growth mitigates compression, the existence of another general government taxing district would put jurisdictions closer to compression. Since

local option levies are first to be removed from a tax bill when compression occurs, allowing children's service districts could have the unintended consequence of rendering local option levies less effective, weakening an important funding tool for local jurisdictions.

Inequities Triggered by New Service Districts due to Measures 5 and 50:

Not only would a children's service district impact other service providers' ability to collect revenue and provide services, but it would likely cause significant inequities between taxpayers within the same district, but in different municipal jurisdictions. Gresham's permanent property tax rate under Measure 50 is \$3.61 per \$1,000 Taxable Assessed Value, around half of that levied by neighboring Portland. Because Gresham was frozen in time with such a low permanent rate, our residents become net-payers for shared services in Multnomah County when Measure 5 compression is triggered, because property owners in Gresham have more room to pay within the \$10 per \$1,000/RMV cap.

When the Multnomah County Library District was approved by voters in 2013, for example, 100% of Gresham households saw a tax increase in the first year, while only 48% of Portland households saw a tax increase that year. On average, Gresham households saw a \$52 tax increase as a result of the district that year. Portland households saw an increase of about half that amount, at \$24. A children's district would have the same unfair and disproportionate impact in a compression environment, if it were adopted countywide in Multnomah County. To make it worse, the population distribution in Multnomah County would make it impossible for the smaller jurisdictions to stop the district, and they could have little or no voice on its governing board.

Alternate Approach Needed for Children's Services:

This bill, in some form, has been proposed in several past legislative sessions, and Gresham is squarely supportive of the intent of the bill: to provide more services for children.

The fact that SB 543 is now drafted to prohibit the district from engaging in education activities in order to avoid Measure 5 compression is clear evidence of the structural weaknesses of this approach. The value of a potential district would be immediately diminished if it cannot, by law, provide any educational value or educational services for children.

That would likely eliminate afterschool tutoring, homework clinics, SUN classes, clubs of educational value, and educational field trips. We should search for a way to achieve the goals of this legislation through a less restrictive vehicle, and one that allows for educational support for children.

The City of Gresham urges the Legislature to seek an alternative path to enhancing services for children. Given the merit of these services, we would be happy to assist in the search for alternative options.

Potential Amendments:

Some of the issues caused by SB 543 could be mitigated through amendments. First and foremost, replacing property taxation with an alternative revenue source would eliminate the issues with Measure 5 compression, ensuring the bill wouldn't negatively impact services provided by other taxing jurisdictions. A revenue source other than property taxes would also eliminate the need to prohibit a children's service district from providing educational services, broadly strengthening the value of a district.

If the Legislature is intent on allowing the proposed districts to collect property taxes, prohibiting the formation of these districts in counties that have established compression issues would ensure that the proposed districts have minimal or no impact on other service providers. This could be done by prohibiting the formation of districts in counties where the county taxing agency has a 10-year compression-as-a-percentage-of-tax-extended average that is higher than the 10-year compression-as-a-percentage-of-tax-extended average of the state as a whole at the time of a petition for formation of a children's service district, or any other threshold the Legislature might find more appropriate. This would permit the formation of districts in some counties with minimal fewer current compression issues, but prohibit them in counties where compression is acute.

Finally, the Legislature could amend the bill to require that cities and counties impacted by a proposed district must approve the formation of the district by Council or Commission resolution, prior to a district being formed with an overlapping boundary. We have heard some opinions that the bill, as drafted, would require this in some way, but the Legislature should amend the bill to be clear and definitive.

The Bill Needs a Subsequent Referral to Revenue:

In each of the previous legislative sessions in which this concept has been advanced, the bill was assigned to Revenue Committees in both the Senate and the House. That is appropriate, because the compression examples detailed above demonstrate the scope of the revenue impact this legislation could have. A subsequent referral to the House Revenue Committee could help address some of these concerns.

Thank you for the opportunity to share our concerns with SB 543. Once again, the City is extremely supportive of services for children, but we implore the Legislature to not present a path to those services that creates a false competition with other critical local services.

Sincerely,

Eric Chambers
Government Relations Director