



City of Portland Issue Brief: Budget Impacts of the Establishment of Multnomah County Library District

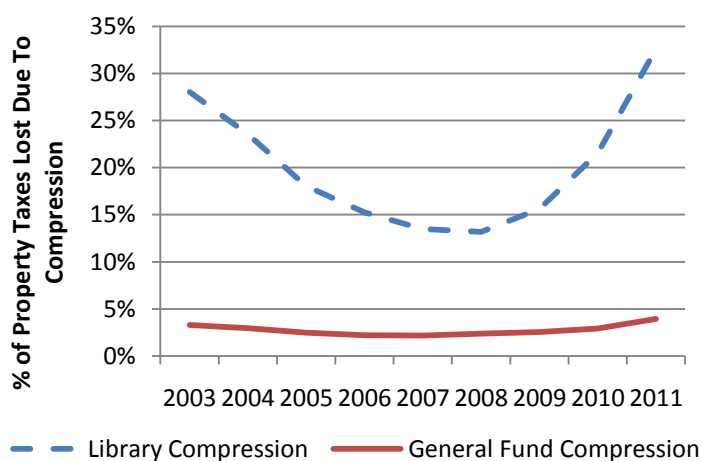
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Office of Management and Finance

ISSUE: MULTNOMAH COUNTY LIBRARY'S LOCAL OPTION PROPERTY TAX LEVY WAS RENEWED IN MAY 2012. HOWEVER, THE LIBRARY HAS THE OPTION TO CREATE A PERMANENT DISTRICT AS EARLY AS FY 2013-14 SHOULD THEY ASK VOTERS IN NOVEMBER 2012. THE CREATION OF A PERMANENT MULTNOMAH COUNTY LIBRARY DISTRICT WOULD CREATE INCREASED PROPERTY TAX COMPRESSION, THEREBY SIGNIFICANTLY REDUCING GENERAL FUND AND CHILDREN'S LEVY PROPERTY TAXES FOR THE CITY. THE COUNTY WOULD EXPERIENCE A SIMILAR GENERAL FUND PROPERTY TAX LOSS; HOWEVER, THE END RESULT COULD BE A BENEFIT TO THE COUNTY BECAUSE ITS GENERAL FUND EXPENSES WOULD FALL BY A LARGER AMOUNT, AS IT WOULD NO LONGER NEED TO SPEND \$15 MILLION FROM ITS GENERAL FUND FOR THE LIBRARY.

Background: Since the 1980s, at least a portion of Multnomah County Library's revenue has come from levying a local option property tax, in addition to County General Fund support. The passage of Measures 5 and 50 have complicated the funding stream by making it susceptible to greater volatility through property tax compression.¹ The effect of compression serves to reduce the amount of property taxes collected on properties where the tax that would be collected, based on the assessed value and pertinent levies, exceeds constitutional limits. Also, current state law requires that the Library submit to voters a renewal of the levy every five years. These factors create significant budget uncertainty. The chart below helps illustrate the different impacts that compression has on local option levies compared to permanent levies using the current Multnomah County General Fund and Library local option levies. Note that the higher the rate of compression, the lower the property tax collections than would be expected given the levy rate.

Figure 1. Multnomah County Levy Property Tax Compression



Source: Multnomah County

There are three major factors that impact the level of compression on local governments. First, because local option levies are compressed first, the type of levy – local option versus a permanent district – has a dramatic impact on the level of compression. Secondly, the extent to which new levies are approved by voters, or alternatively allowed to expire, will impact the total levy for any jurisdiction, thus impacting compression. Finally, because compression is based on real market value, growth in real market value can alleviate compression (as seen in the earlier years in Figure 1), while declines can increase compression.

¹ For more information on how compression occurs, please see:

http://web.multco.us/sites/default/files/budget/documents/property_tax_briefing_september_25.pdf

Potential Property Tax Impacts: Though an election could be delayed until 2014 because of the local option levy approved by voters in May, should a new district be approved in November, the impact of the increased levy to the City would begin in FY 2013-14. Table 1 below summarizes potential property tax impacts from selected governments.

Table 1. Property Tax Impact of New Library District (Based on FY 2011-12 Assessments, \$millions)

Government	Current		w/Potential Library District ¹		Change in Taxes
	Taxes Imposed	% Compressed	Taxes Imposed	% Compressed	
City Of Portland (including FPD&R)	\$308.8	4.9%	\$299.3	7.9%	-\$9.5
Portland Children's Levy	\$11.1	40.7%	\$10.1	45.9%	-\$1.0
Multnomah County	\$240.1	4.0%	\$234.2	6.3%	-\$5.9
Multnomah County Library	\$34.9	32.6%	\$63.6	6.3%	\$28.8
City of Gresham	\$24.3	0.0%	\$24.3	0.0%	\$0.0

¹ Assumes permanent rate of \$1.18/\$1,000 value
 Source: Multnomah County, December 2011

City Finances/Services Impact: Based on FY 2011-12 assessments, Multnomah County estimates that the collection on the City’s property tax levy – including the levy for Fire and Police Disability and Retirement (FPD&R) – would see a reduction of approximately \$9.5 million in property taxes due to the increased compression. Because FPD&R property tax collection are based on an amount, rather than a levy rate, they would essentially be held harmless. **However, the City’s General Fund would likely see a reduction of at least \$7 million in FY 2013-14. It is important to note that should property values continue to decline significantly, the City could see substantially greater impacts because more properties would be “pushed” into compression.**

Children’s Levy Impact: The impact to the Children’s Levy, based on FY 2011-12 assessments is about \$1 million. The impact is largely the same if either the current local option levy is increased or if a permanent district is established because there are very few properties that are only partially compressing local option levies. In other words, to the extent that the Children’s Levy is already receiving no property taxes from certain properties due to compression, increasing that compression cannot further impact the Levy.

County General Fund Impact: For Multnomah County, the impact on its General Fund property taxes is two-fold. **Effectively, the majority of the increased taxes from a new library district will go to supplant funding from Multnomah County’s General Fund, not increase the library’s budget.** Table 1 shows that had a district been in place for FY 2011-12, the County’s General Fund would have received about \$5.9 million less in property taxes. However, the County has stated that should a district be established, it would no longer need to subsidize the Library with General Fund dollars. The County’s FY 2012-13 budget shows nearly \$25 million in General Fund being transferred to the library, with \$10 million being provided as one-time funding. Though the County would collect less in property taxes, it would save much more (approximately \$15 million in FY 2012-13) in foregone General Fund expenses, netting approximately \$9 million based on FY 2012-13 figures.

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