2019 LOC LEGISLATIVE PRIORITIES

Revenue Reform/Cost Containment

The LOC recognizes that Oregon faces fiscal challenges at both the state and local government levels. Cost increases are outpacing revenues, even in a healthy economy. Revenue reform and cost containment necessarily must go hand-in-hand. The LOC will insist upon the inclusion of two items in any package undertaken by the Legislature: property tax reform and PERS reform.

Property Tax Reform

The LOC proposes constitutional and statutory property tax reform as part of the Legislature's work in 2019 on state and local tax reform and improving funding for schools. The LOC is not seeking property tax revenue increases from the Legislature for cities or other local government taxing districts. That must remain a local choice for local elected officials and voters, as each community across the state has different needs and revenue circumstances. The LOC's priority is to ask the Legislature for reforms that reestablish tax fairness and allow local governments to make real tax choices again. The current valuation inequities, present caps, permanent rates and growth limits have hamstrung communities arbitrarily. The result has been more city fees, deferred maintenance, and service cuts because costs increases are outpacing revenues. The limits of Measures 5 and 50 on the property tax system simply do not allow cities to work effectively.

Background

Property taxes are the largest source of revenue for cities, with $1.39 billion collected in FY 2017-18. Property taxes play a vital role in funding capital projects and the essential services that cities provide, including police, fire, roads, parks and more. They are also a key revenue source for counties, special districts and school districts—providing approximately one-third of the state's education budget. This system is broken and in need of repair due to Measures 5 and 50, which are both now more than 20 years old. The tale of two houses (and two businesses) is the norm—this is the phenomenon of two properties with similar values having widely disparate tax bills. Compression is also the norm for most taxing districts—this is the phenomenon of voters approving tax increases, but the tax bill getting reduced due to Measure 5 limits.

Desired Outcome

The LOC is advocating for both comprehensive and incremental property tax reform option packages. The ultimate goal is a constitutional referral to voters and companion bills that make the statutory changes to reform the property tax system. The LOC will remain flexible in its support of all legislation that improves the system, with a focus on a package that includes these elements:

- To achieve equity, a transition to a market-based property tax valuation system (RMV) rather than the present complex valuation system from Measure 50 (requires constitutional referral).
- To enhance fairness and adequacy, a system that makes various statutory changes, some of which would adjust the impact of a return to RMV. For example, the LOC supports a new reasonable homestead exemption (percentage of RMV with a cap) but also supports limiting or repealing various property tax exemptions that do not have a reasonable return on investment.
- To restore choice, a system that allows voters to adopt tax levies and establish tax rates outside of current limits (requires constitutional referral).

Legislative Update:

Both the Senate Finance and Revenue Committee and the House Revenue Committee have filed several pre-session property tax reform bills. These include constitutional referral bills (SJR 1, SJR 2, HJR 1, HJR 2, and HJR 3) and companion statutory changes (SB 209, HB 2104, HB 2157, and HB 2167). If not wholesale reform, the LOC is hopeful some legislation will advance that starts to address the problems with our broken property tax system. The bills introduced focus on fixing Measure 50's valuation inequities and would move assessments closer to real market value. If significantly more revenue is to be injected into the K-12 school budget this session and long-term stability is to be achieved, property tax reforms should be a part of the package to avoid overburdening other revenue streams. Restoring valuation equity, which is the bases of the property tax system, would be a great start.

PERS Reform

The priority is to provide employers with Public Employee Retirement System (PERS) rate relief by: sharing the cost of pensions with employees; improving earnings by achieving efficiencies in our investment system; and fully funding the Employer Incentive Fund.

Background

Due to adverse court rulings, investment losses in 2008, and improved retiree longevity, Oregon's pension system is currently $22 billion underfunded. As a result, employer rates are expected to increase in 2019, 2021 and possibly 2023 before leveling off and slowly decreasing over the next 20 years.

Additionally, because of the tiered nature of previous reform efforts, current employees who are part of the Oregon Public Service Retirement Plan (OPSRP) will receive a reasonable pension, but not one nearly as generous as the plans received by previous generations. Reforms should take these generational inequities into account by requiring Tier I and Tier II employees who are currently working to pay greater shares of their pension costs. Currently, the only contribution an employee makes to their retirement benefit is 6 percent toward an individual account plan similar to a deferred compensation program. Requiring the 6 percent contribution, or a portion thereof, to fund the defined benefit pension would allow the employer rate to be shared with employees.

Rate relief may also be provided by continuing to modernize the state's investment system. Moving more investment officers in-house, and away from private sector firms, has improved investment earnings and reduced costs of managing the state's portfolio. This trend should continue.

In 2018, at the urging of the governor, the Legislature established the Employer Incentive Fund, which is intended to provide matching dollars to local employers for contribution to their side accounts. Oregon's PERS problems are the result of decisions made by the state , and it is therefore appropriate that the state should provide direct funding assistance to cities to correct the challenges these problems.

Desired Outcome

The achievement of employer pension cost relief.