THE HIDDEN TAX:

What the public should know

by
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*T*o the Citizens of *Multnomah County:*

Often I hear taxpayers saying, "Why am I paying more taxes only to be getting less and less service?" One answer, I believe, is the impact of TAX INCREMENT FINANCING. Tax increment financing is a HIDDEN TAX which citizens need to know about, because it casts a long and deep shadow over public funds, diverting money from basic services to "economic development projects." Though the term, TAX INCREMENT FINANCING, may seem a formidable term, its principles are easy to grasp and I've tried to capture the essentials in the paper which follows, in the hope that an informed public can help its elected representatives make good policy. Please take a few minutes to review this document. The very worst thing that could happen is that you will emerge a sadder but wiser taxpayer.

Several years ago, when urban flight was a critical issue to cities, a number of financial strategies were developed to revitalize downtown areas and promote economic growth. These plans may have made sense in the 1960's but as a community on the brink of the twenty-first century, it may be time to revisit these notions. Tax increment financing is one of these.

To illustrate what this financing mechanism is and how it works, let's create a mythical county in a galaxy long ago and far away. That way we can set up a laboratory situation which is devoid of too many complications. Once we understand the principal, then we go back and see how it applies to a real county in Oregon.

The Journey Out

Okay. We've made our journey and we have arrived at the year 2001 on a distant planet where there is a small county named "Eye Speck." As you can see *(see drawing No. 1A.)* this is a small kingdom of ten houses, each of which has the same appraised market value of $20,000. Three of the houses within that county live in an even smaller, incorporated community, called the "City of Limits."

To pay for the services of the county government, the elected officials applied to the state on this planet and were granted the right to raise $1000, which would be the tax base for the first year of operating expenses, and a 6% increase in the tax base each succeeding year of operation. So, in the first year, the county of Eye Speck could raise $1000. In the second year, it could raise $1060. In the third, it could raise $1124 and so forth, for so long as the county and the property owner both shall live.

To determine what each property owner's share of this debt would be the elected officials of the county went through the following thought process:

1. We want to raise $1000 for fiscal year 2001.
2. We have ten houses in our county, each worth $20,000.
3. The total assessed value of real property for the county then is ten houses times $2000 for a total worth of $200,000.
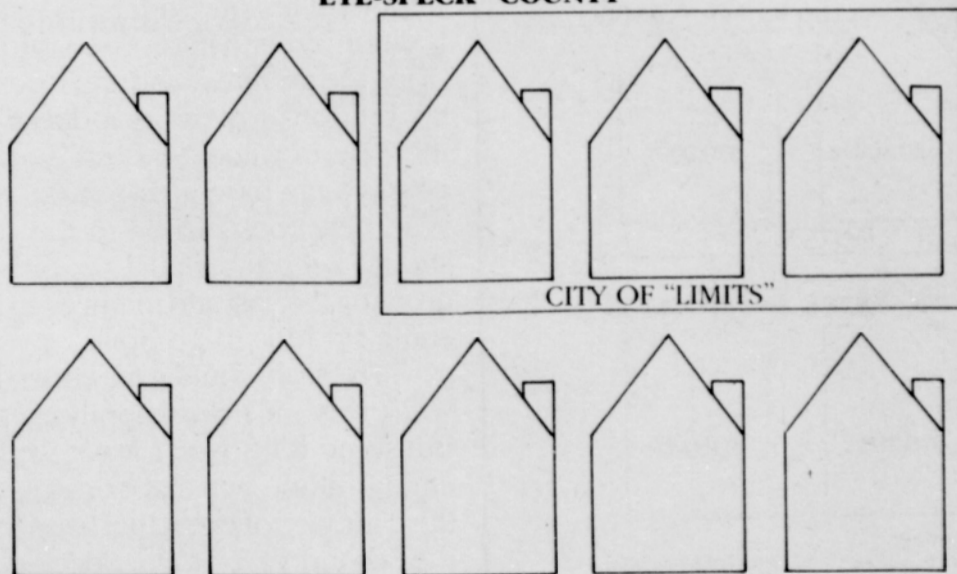
All right. They got that far in their calculations but the big question was, "What is the rate we shall have to charge each property owner in order to collect $1000?" As usual, there is always one "smart pencil" in the crowd and she shouted, "If there are ten houses and we want to raise $1000, then it is obvious. We have to charge each house $100."

(see drawing No. 2A.)

"Yes," said another. "But how did you arrive at that?" And the smart pencil replied, "That's easy. Take all the value of the property in our county — that would be $200,000 — and divide into the amount of money we allowed to raise — which is $1,000 — and that gives us the rate we shall charge each property owner. In this case, our rate for each dollar of assessed value would be .00500. (The county assessor, being from the old school, would express this rate as $5.00 for each $1,000 of assessed value.) Now if we multiply the value of each house times the rate, we arrive at total tax of $100 for each property owner in our county."

In other words, if we multiply the value of each home times the rate, we

"EYE-SPECK" COUNTY

CITY OF "LIMITS"

Drawing No. 1A