

What are the issues surrounding Newberg's potential annexation into the TVF&R Fire District?

"Executive Summary:"

The City of Newberg has funded Fire and EMS services through property taxes for decades. The Permanent Tax Rate Limit for those taxes is about \$4.38/\$1,000, from which these and other services are funded. As a test of a new approach, the City contracted with TVF&R to provide those services for two years. That contract ends on June 30, 2018. If Newberg annexes into the TVF&R District then Newberg property owners will pay an entirely new tax to the TVF&R District of about \$2.08/\$1,000. At the same time, the City of Newberg will no longer have the responsibility or cost burden of funding these services but will keep the legal authority to levy the same tax rate as before the annexation.

In Fiscal Year 2016-2017 (first year of the TVF&R Contract), the cost of the contract to the City was roughly equivalent to a tax rate of \$1.88/\$1,000. Because the City will no longer have this financial obligation, we are proposing that the City should not continue to collect the taxes that funded it. The City will have the same amount of funding for non-Fire/EMS services after this limitation as it did before as the limitation is completely offset by the loss of the financial obligation. We are proposing that there be a ballot measure on the May, 2018 ballot that amends the City Charter to this effect.

"Full version:"

The facts of the situation as we understand them are as follows:

- 1) The City Council chose (in March of 2016) to enter into a contract with Tualatin Valley Fire & Rescue (TVF&R) for two years to provide Fire and EMS service to the city.
- 2) If you assume that property taxes are the full funding source for Fire, it was costing about \$1.81/\$1,000 (\$1.81 tax for each \$1,000 of property value) in Fiscal Year (FY) 2015-2016 (when Newberg had its own Fire Department).
- 3) With the same assumption, it is costing about \$1.88/\$1,000 for 2016-2017 to contract with TVF&R.
- 4) The TVF&R contract expires at the end of FY 2017-2018 at which point the primary options for city fire services are to annex into the TVF&R district or to reconstruct the Newberg Fire Department (NFD). At a recent Budget Committee meeting, the City Manager stated that the contract may get extended a year.
- 5) Reconstructing the NFD at this point would be a very expensive and difficult process.
- 6) The Newberg City Council initiates the process of annexation into the TVF&R District. It is presently under dispute about whether or not a public vote of Newberg residents is required. Our view is that State law is very clear on this and that a vote in Newberg is required.
- 7) If Newberg joins the TVF&R district, it will create an entirely new tax to property owners of about \$2.08/\$1,000. Newberg's Permanent Tax Rate Limit of \$4.38 would not be changed.
- 8) If Newberg joins the TVF&R district, the City will lose the financial liability of providing Fire services as such services will be provided by TVF&R outside of the City budget.
- 9) If the Budget Committee and City Council (BCCC) decide to continue to levy the full Permanent Tax Rate Limit of \$4.38/\$1,000, the TVF&R District tax will create a \$2.08/\$1,000 increase on our property tax bills.
- 10) The BCCC can choose to levy less than the \$4.38/\$1,000, but that is binding only for the FY during which it is approved. In following FYs, the levy could be increased back to \$4.38/\$1,000 (or any other value below that) through the actions of the BCCC.
- 11) The methodology for calculating the Permanent Tax Rate Limit of \$4.38/\$1,000 is in the Oregon Constitution and would therefore require a Constitutional Amendment to change.

We have tried to keep the list above to factual items. If you find anything in error there, please contact us.

The following is our opinion of the present situation:

- 1) The citizens of Newberg are generally satisfied with the service that TVF&R is providing.
- 2) The financial and service advantages of being in the TVF&R District are very likely to push the City Council to approve annexation into it.

- 3) **THE overriding issue for Newberg citizens is concern about allowing the full \$2.08/\$1,000 to end up as an increase in property taxes.**
- 4) The City Council has moved toward TVF&R as a means of providing quality, cost-effective fire services to the citizens of Newberg. It was not done as a way of avoiding property tax limitations.
- 5) The citizens of Newberg wouldn't object very strongly to the increase from the FY 2016-2017 effective cost of \$1.88/\$1,000 to the expected \$2.08/\$1,000 cost if we join the TVF&R District.
- 6) The citizens of Newberg are reluctant to trust the BCCC to not use the situation to effectively raise property taxes and would therefore support a legal restriction on such an increase.
- 7) The citizens of Newberg are also concerned about proper compensation for the transfer of assets (two fire stations, equipment, etc.) to TVF&R. While we think this is a significant issue, I'm leaving that for a future discussion.

An obvious question if you agree with what I've written is: "How do we resolve this?". We have thought of three possibilities:

- 1) Pass an amendment to the State Constitution
- 2) Convince TVF&R to enter into a long-term contract that is effectively the same as being in their District but is funded by the City of Newberg. This would keep the expense within the City's Permanent Tax Rate Limit.
- 3) Amend the Newberg City Charter to limit the amount that can be collected from property taxes.

The difficulty and expense in passing a Constitutional Amendment clearly puts that as almost unachievable. In addition, we tend to think that it is far more comprehensive than is appropriate here.

The long-term contract with TVF&R was the first solution we really considered. While we'd push for it if there weren't an alternative, it could be rather challenging to accomplish. It would be rather unusual for TVF&R to enter into such a contract and they have expressed reluctance to do so.

The Charter amendment is what we think is the clear best solution. It would restrict the BCCC in such a way that would be difficult to change without a vote of Newberg citizens. Of course, it could be changed by a court decision or by an act of the State Legislature (such as occurred with the requirement voter-approval of annexations) but we think those risks are low enough to not be of great concern. There are a number of options about the specifics of this amendment.

One significant issue regards the exact amount of the restriction on the property tax levy. Our view is that it would be appropriate to look at whatever effective rate the City pays to TVF&R for 2017-2018 and subtract that from the Permanent Rate Limit. For the moment, let's assume that the new effective rate is the same \$1.88 as 2016-2017. This would set the levy limit on the Charter Amendment to be \$2.50/\$1,000, calculated as \$4.38 - \$1.88. There are actually some decimal places to add, but we'll leave that for later. Keep in mind that this would still end up as an increase in taxes of about \$0.20/\$1,000 to property owners (about \$40/year for a \$200,000 house). This comes from the fact that the present contract with TVF&R is costing the City about \$0.20/\$1,000 less than it will cost the property owners after joining the TVF&R District. We don't think that the goal here should be to avoid any tax increase with an annexation into the Fire District. Instead, we think that the goal should be to keep the effective tax rate to the City consistent before and after the annexation.

This all becomes relevant when the BCCC passes and adopts the 2018-2019 budget as that would be the first budget where Newberg is in the TVF&R District. As an item separate from the budget, the Council adopts the amount of the tax levy for the year.

If this were to be put on the ballot before the May 15, 2018 Primary, the cost is around \$50,000. If it were added to the May 15, 2018 or to the November 6, 2018 elections, the cost is around \$2,000 if done by a citizen or no cost if it were initiated by the City.

The next question, if you agree with what I have proposed, is: "Where do we go from here?". These are my recommendations:

- 1) Engage citizens to discuss the idea of amending the Charter. Talk to them individually and at local service clubs. We intend to write a guest editorial to the Graphic on this issue and are planning other outreach efforts.
- 2) Encourage the City Council to put a Charter Amendment on the ballot in May, 2018. This would cost less, be more efficient, and would show that the Council is not trying to use the annexation to the Fire District as a way of getting around property tax limitations. If the City Council won't do it, we would have to organize an effort to accomplish this. Though it would take some significant work, we have little doubt that it could be done. If the Council does agree to put the amendment on the ballot, we intend to continue the effort as a way of supporting their decision.
- 3) Keep in mind that what we're talking about now won't require a vote for another year. We want to make sure that if there is good support for it, it doesn't get forgotten by election time. We think that this is far less of an issue if the City chooses to put the Charter amendment on the ballot.
- 4) Continue the discussion about what to do about the City's fire assets (land, buildings, equipment, etc.). We think this is a very important issue but also that it is one that needs to be kept separate from the taxing issue. Such separation will help to keep the different discussions focused.

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