

MODIFYING OREGON'S PROPERTY TAX SYSTEM

Chris Fick League of Oregon Cities

House Revenue Committee Thursday, March 7th, 2013





Two Referrals:

1. Change to Measure 5 (HJR 8) 2. Change to Measure 50



Measure 5 (1990)



- Capped property taxes for all general governments (cities, counties, special districts) and schools at \$10 and \$5 respectively per \$1,000 of real market value (RMV)
 - Limits property taxes to 1.5% of RMV
 - \$200,000 home = \$2,000 limit on general government property taxes; \$1,000 limit for schools
 - Measure 5 limits mimic the real estate market
 - Limits do not include capital bond measures



Compression



- If the property taxes on an individual property exceed the Measure 5 limits, the taxes are reduced until the limitations are reached, a process known as compression
 - Voter-approved temporary taxes are reduced first, all the way to \$0, before collections from permanent rates are compressed
 - More than half of Oregon cities are in compression, as are all counties and 90 percent of school districts
 - Revenue lost to compression is increasing





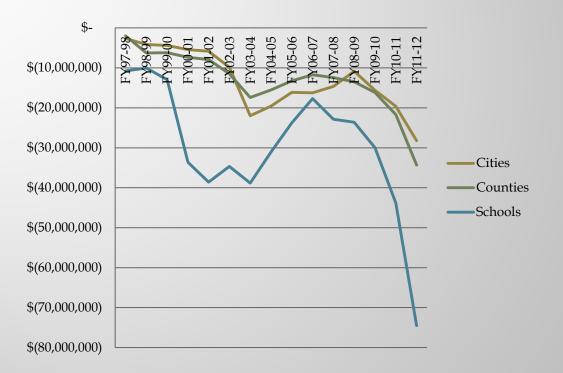
Compression Example

	2009	2012	Difference
RMV	\$200,000	\$180,000	(\$20,000)
Measure 5 limits	\$2,000	\$1,800	(\$200)
<u>Local Taxes</u>			
Local option levies	\$50	\$0	(\$50)
Special District	\$500	\$462	(\$38)
City	\$650	\$600	(\$50)
County	\$800	\$738	(\$62)



Compression Losses for Cities, Schools and Counties





Since FY2008-09 revenue lost to compression has increased:

- 216% for schools, or by \$50.9 million
- 154% for counties, or by \$20.8 million
- 161% for cities, or by \$17.4 million

Compression Loss on Local Option Levies

	Percentage of levy lost to M5 compression	Calculated Tax	Taxes reduced due to M5 compression	Tax imposed
Morrow County School District Levy	72%	\$ 1,421,000	\$ 1,020,000	\$ 401,000
West Linn/Wilsonville School District Levy	71%	\$ 9,320,000	\$ 6,585,000	\$ 2,735,000
Crow-Applegate-Lorane School District Levy	66%	\$ 313,700	\$ 208,000	\$ 105,700
Tigard-Tualatin School District Levy	57%	\$ 8,773,000	\$ 4,994,000	\$ 3,779,000
Eugene School District Levy	56%	\$ 18,778,000	\$ 10,550,000	\$ 8,228,000
Portland City Children's Levy	47%	\$ 19,175,000	\$ 8,949,000	\$10,226,000
Corvallis School District Levy	47%	\$ 7,746,000	\$ 3,602,000	\$ 4,144,000
Portland Public School District Levy	34%	\$ 80,164,000	\$ 27,414,000	\$ 52,750,000
Sweet Home City Police and Library Levies	33%	\$ 2,735,000	\$ 905,000	\$ 1,830,000
Albany City Public Safety Levy	33%	\$ 2,500,000	\$ 825,000	\$ 1,700,000

Three Major Problems



- #1 Undermines local control
 - Voters are no longer in control of services provided locally
 - City of Salem
 - City of Sweet Home
 - West Linn/Wilsonville School District
 - Tigard-Tualatin School District
 - Portland Public Schools

Fosters Belief in Bad Government The Oregonian

DAVID BADDERS/THE OREGONIAL

viscioners has until Aug. 2 to

'09 Source: Multhomah County '08

The Multnomah Board of County



Other local institutions are also

Thursday closures on

feeling the strain. Tigard Public Li-

economic climate.

Multnomah County's cutbacks in hours and services, tied to Oregon's complicated tax code, caught plenty of library-goers off-guard. Hollywood resident David Sparks is among those who voted to extend levy funding in May on the mistaken assumption that the library would stay open seven days a week.

of Oregon CITIES

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"So terribly disappointed that what we voted for apparently wasn't," said Sparks, who has four children younger than 12 and brings his family to the library weekly.

> Multhomah County voters approved the renewal of the library levy with 84% of the vote.

County Library, planning to spend a few hours with her 5-year-old daughter, Amelie, reading princess books. It was Monday morning. She pulled the door handle, but the

building was locked. Then McBride we sign on the window:

Three Major Problems



- #2 Spillover effects
 - The actions of one taxing district can have an effect on overlapping districts
 - Examples:
 - Sweet Home, Albany and Linn County
 - Madras and Jefferson County
 - Redmond and Deschutes County
 - Multnomah County Library and Portland

Three Major Problems



■ #3 – Some people not paying for voter-approved taxes

In many ways, our system really is nuts...

About one third of Portland homeowners don't have to pay the entire [local option levy], and more than a quarter of all homeowners don't have to pay anything at all...

Thanks to property tax compression, thousands of Portland homeowners may vote in support of tax hikes from which they are effectively exempt.

[Measures 5 and 50 have] created compression related inequities and distortions in a number of cities... they also tie the hands of local voters.

ave news company avour we states proped at's too bad. In many

The Oregonian

Oregon's Tax Trouble | First in a continuing series

a the Oregon Historical Society. About one third of there to pay the entire amount, and more residents of tlanders, and it's particularly

e interplay of two ballot measu

990's Measure 5, which limited taxes for \$5 per \$1,000 of property value mment to \$10 per \$1,000.

to taxes for bond measure 1997's Measure 50, which rolled ues for taxation purposes reation of two different prop

-is used to calculate taxes. te, which theoretically reflects likely sale price, is used to calcuation and general go

so, they've created comlate tax ties and distortions in a ling Portland. They also tie

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Hiking your neighbor's taxes

because compression occurs on a property of those of the property and the property of the prop taxes on others than on the tions, they tend to ask for when they cast their ballots. ent entities that rely vill cut their collect

it is to fo

Thanks to property tax compression, thousands of Portland

homeowners

may vote in support of the change to voters was intax hikes from which session, but it didn't pass.

they are effectively but addressing the comp a system that caps taxes, but does so in an inequ remments to seek larger local option instance una encourages governments to seek rarges rocal option levies than necessary? Or is it better to make the system more in-and increases the mount of restore but to Asian as easing the Asia uns to us at this point, is preferable. Local option lev-

and increase the power of voters, d all property owners will have at least

Solution



- Voter Control Referral HJR 8
 - Empower voters to pass local option levies outside of statewide limits
 - Levies remain limited to five years maximum
 - Referral is not retroactive
 - Levies could still be passed within statewide limits
 - Proposed levies outside of limits must state that the taxes paid will not be reduced due to statewide limits





Two Referrals:

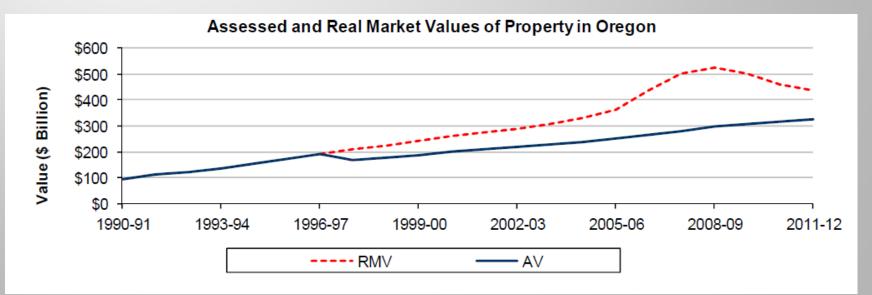
1. Change to Measure 5 2. Change to Measure 50 (HJR 13)



Measure 50 (1997)



- Set a new assessed value (AV) level
 - At 10% less than 1995 RMV
- Capped annual growth in AV at 3% annually
- Set permanent rates for all taxing districts



Inequity – Neighborhood to Neighborhood



Measure 50 locked in AV at 1995 levels

A Tale of Two Blocks

	Block 1	RMV	AV	Taxes
ed	9910 SW 61st	\$ 269,670	\$ 213,930	\$ 4,236
lish	9931 SW 61st	\$ 270,590	\$ 236,110	\$ 4,270
stabl	9930 SW 61st	\$ 279,390	\$ 216,920	\$ 4,385
Est	9911 SW 61st	\$ 311,450	\$ 252,070	\$ 4,897

This block receives a Measure 50 discount of <u>13</u> <u>to 23 percent</u> off their tax rate applied to their RMV.

This block receives a
Measure 50 discount of <u>73</u>
to 82 percent off their tax
rate applied to their RMV.

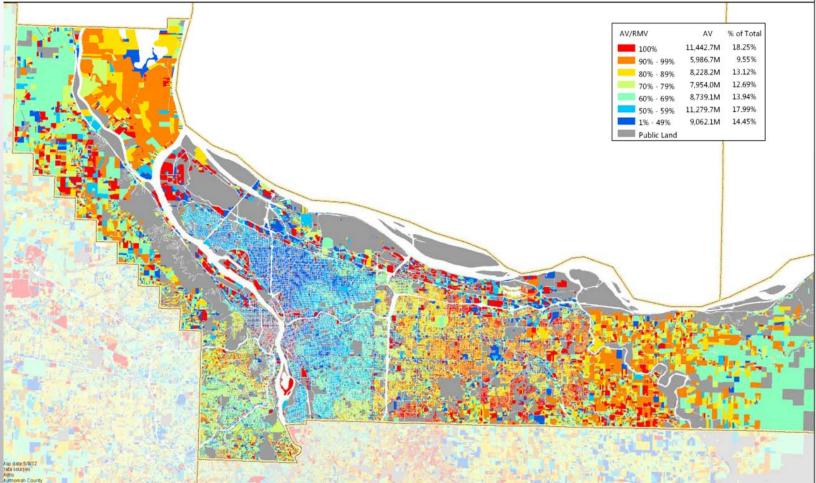
Gentrifying

Block 2	RMV	AV	Taxes
5134 NE 16th	\$ 267,870	\$ 72,870	\$ 1,624
5117 NE 16th	\$ 268,480	\$ 51,790	\$ 1,154
5126 NE 16th	\$ 282,140	\$ 51,640	\$ 1,151
5133 NE 16th	\$ 352,530	\$ 81,930	\$ 1,826

Ratio of AV to RMV in Multnomah County



Assessed Value Analysis of Multnomah County - 2012



Source: Tualatin Valley Fire & Rescue

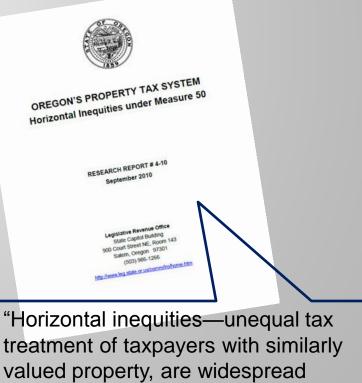
Inequity -**Property to Property**



Measure 50 inequities are not confined to the Portland metro area

	RMV	AV	Taxes	Difference
	\$ 245,250	\$ 136,600	\$ 2,080	
	\$ 245,320	\$ 245,320	\$ 3,640	(\$1,560)
	\$ 270,510	\$ 132,630	\$ 2,020	
Bend	\$ 270,480	\$ 270,480	\$ 4,080	(\$2,060)
ā	\$ 285,270	\$ 103,080	\$ 1,570	
	\$ 285,200	\$ 285,200	\$ 4,232	(\$2,662)
Redmond	\$ 164,710 \$ 164,500	\$ 99,720 \$ 164,500	\$ 1,846 \$ 2,967	(\$1,121)
edm	\$ 155,590	\$ 134,530	\$ 2,490	
Ř	\$ 155,690	\$ 155,690	\$ 2,808	(\$318)
Sisters	\$ 277,990	\$ 123,220	\$ 1,997	
Sist	\$ 276,080	\$ 251,520	\$ 4,102	(\$2,105)

* Figures are from 2011-12 tax statements



valued property, are widespread among the four counties (Deschutes, Jackson, Multnomah and Sherman) observed."

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Oregon's Unique Detachment from RMV



- On reset at sale: "Of the 18 states that apply their assessment limit to individual parcels, only Arizona, Minnesota, and Oregon do not have this acquisition value feature."
- "With no periodic recalibration of assessed values to market levels, <u>the Oregon system has gone the</u> <u>farthest of any in breaking the link between</u> <u>property taxes and property values</u>."
- Source: "Property Tax Assessment Limits: Lessons from Thirty Years of Experience." Mark Haveman and Terri A. Sexton. Lincoln Institute of Land Policy. 2008.

Solution



- Reset at Sale HJR 13
 - Reset a property's assessed value (AV) to real market value (RMV) at the time of sale or construction
 - Includes provision to allow eligible low income seniors to move without seeing taxes increase
 - Revenue could help fund more targeted deferral or exemption programs





Questions?

Additional information available at: <u>www.orcities.org/taxreform</u>



Two Limitations



If tax extended is greater than the maximum allowable tax, the difference is reduced or "compressed" and is not collected by the taxing district(s).

Measure 50 limits

Assessed Value x Tax Rate = Tax Extended

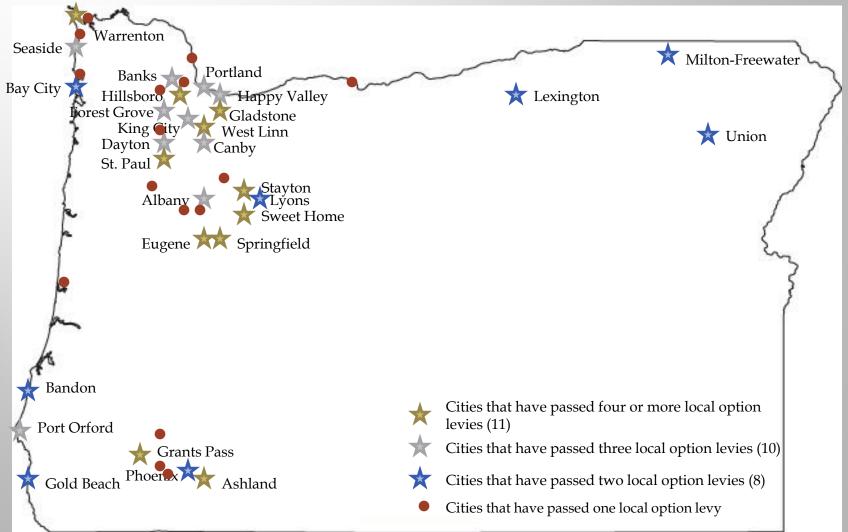


Measure 5 limits

Real Market Value ÷ Maximum Category Rate (\$5 schools / \$10 general gov.) = Maximum Allowable Tax

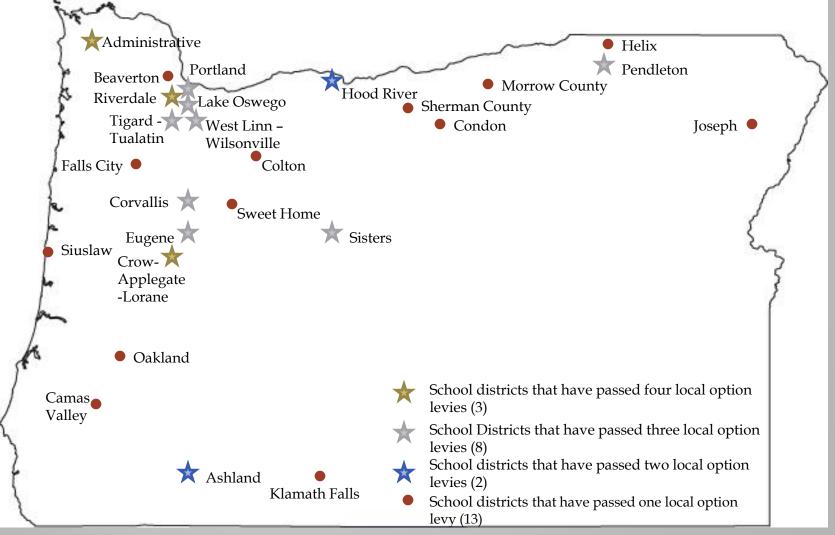


City Local Option Levies



School District Local Option Levies





County Local Option Levies

