Oregon
Kate Brown, Governor

Department of Revenue
955 Center St NE
Salem, OR 97301-2555
www.oregon.gov/dor

January 29, 2016

The Honorable Senator Richard Devlin, Co-Chair
The Honorable Representative Peter Buckley, Co-Chair
Interim Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of the Request

The Department of Revenue (DOR) submitted a policy option package to address the ongoing deficit in the County Assessment Function Funding Assistance (CAFFA) revenue in the Property Tax Division (PTD). DOR has a significant funding shortfall to meet statutorily mandated duties related to the Industrial Valuation and Central Assessment programs. The department requested budgetary authority to realign our General Fund (GF) and Other Fund (OF) resources to better reflect actual business activity and associated costs. We requested a permanent GF allocation equivalent to the currently anticipated CAFFA revenue deficit of $1.8 million for 2015–17.

The Ways and Means Subcommittee recommended approval of Package 070: Revenue Shortfalls, which resulted in a reduction of OF expenditures in Personal Services by $1,836,836, and eliminated 7.2 FTE. It was also recommended to defer approval of the policy option package to backfill the GF portion of the package to the 2016 Legislature and, at that time, request a $1,836,836 special purpose appropriation to the Emergency Board for PTD.

Since that time, the department has developed a proposal to realign our GF and OF resources in all program areas within PTD to better reflect actual business activity and associated costs. In addition to CAFFA, in the property tax area we administer the Senior and Disabled Deferral program which is an OF program and is now handled as a separate appropriation. The ORMAP program is an OF program supported by a portion of county recording fees. Cadastral (mapping) work we contract with some counties to perform is supported in part by fees charged to those counties for the work. The Senior and Disabled Deferral and ORMAP program costs are currently fully funded by the associated OF revenue stream. CAFFA revenues are not sufficient to cover department costs for appraisals we are statutorily required to perform. County contracts for mapping services vary annually. Based on the current number of contracts the fees are not sufficient to cover department costs.

The department has revised the shortfall dollar amount based on a 15-month projection rather than a full biennium. The modified request is for additional GF appropriation totaling $1,360,125 to cover the shortfall in CAFFA revenues and fees for service charges in the Cadastral program and restoration of 7.2 FTE.

Agency Action

Oregon's property tax system generates over $10.7 billion each biennium to fund public schools, police, fire and other local government services. The 36 counties and the state have a shared responsibility for statewide uniformity and accuracy in all aspects of assessment & taxation.

The Department of Revenue has two main responsibilities in the property tax system. The first is to exercise general supervisory authority over the 36 county assessment and taxation administration offices. The second is to provide assistance to the county offices in functions that require advanced expertise. The CAFFA program was created in 1989 to provide a supplemental funding source for assessment and taxation functions for the counties and the state. The department was permitted to share in up to 10% of total CAFFA revenues. These revenues were dedicated to fund expenses of valuing industrial properties with a value between $1 and $5 million. Prior to the creation of the CAFFA program, counties had responsibility for valuing all industrial properties with a value of $5 million or less and the department had responsibility for industrial properties with a value of more than $5 million.

There are five major program areas in the Property Tax Division (PTD):

1. Valuation—The department is required (ORS 308.232) to annually value large complex properties on behalf of the counties. This includes both industrial properties valued at more than $1 million, and all statewide utility and transportation property commonly known as the centrally assessed properties such as railroads and telecommunications. PTD processes approximately 1500 industrial property tax returns (IPR) each year that serve as the beginning point for determining the value of these properties. The combined value of these property types (centrally assessed and industrial) is approximately $50 billion (as of November 2015). PTD works with counties through the appeal process to explain and defend values we have determined.

   Funding to complete the appraisal/valuation work is split between a GF appropriation and up to 10% OF received from CAFFA accounts.

2. Cadastral Information Systems—Accurate maps are important when describing property and identifying ownership. This unit enters into service agreements to provide mapping support to nine counties and processes taxing district boundary changes under ORS 308.225, ORS 306.125, and ORS 190.110. The project also provides grant money to counties for re-mapping and projects that meet ORMAP standards and goals.

   Funding for this program is GF, but DOR enters into service agreements with nine counties and is reimbursed for expenses related to map maintenance by the counties at an hourly rate. The work that PTD performs for the ORMAP program is funded through a county recording fee of $1 per document. This was created to fund a base map system to be used in property tax administration.

3. County Support, Assistance and Oversight—To meet the requirements of the Oregon Constitution for uniformity in the application of property taxation, this section provides support to the counties by:

   a. Setting appraisal standards,
   b. Providing training,
   c. Developing administrative rules,
   d. Monitoring programs,
   e. Providing direct assistance to counties, and
   f. Holding statewide subject area "Tech Group" meetings.

   Funding for support, assistance, and oversight is 100 percent GF except for the position responsible administration of the CAFFA grant process, which is 100 percent OF.

4. Forestland Valuation and Timber Taxes—This unit establishes the specially assessed value for more than 7.9 million acres of forestland statewide. They administer two tax programs: the Forest Products Harvest Tax, and the Small Tract Forestland Severance Tax.

   Funding for these programs are 100 percent GF.

5. Senior & Disabled Citizen Property Tax Deferral—This program allows qualifying senior or disabled people to defer the property taxes on their home. The department pays the tax to the counties, and secures repayment via a lien against the property.

   The Senior Property Tax Deferral Revolving Account (OF) funds the unit under ORS 311.701; repayments from people no longer in the deferral program fund this account. There have been significant law changes in the 2011, 2012, 2013 and

2014 Legislative Sessions related to the deferral program, which increased the workload. This unit is now fully staffed at 5 FTE, with 4 seasonal temporary work assignment positions to help during application processing season. After the law/criteria changes the program is once again self-sustaining.

GF Shortfall Summary

The CAFFA and Cadastral OF programs do not generate enough OF revenues to offset our expenses for personal service and services and supplies in their entirety. The fee structure for each program has remained static; industry inflation factors have not been applied. Thus, keeping up with the increased costs of personal services has not occurred.

CAFFA

One critical component of property taxation is to ensure that all properties (both state and county appraised) are valued at 100 percent of real market value (ORS 308.232).

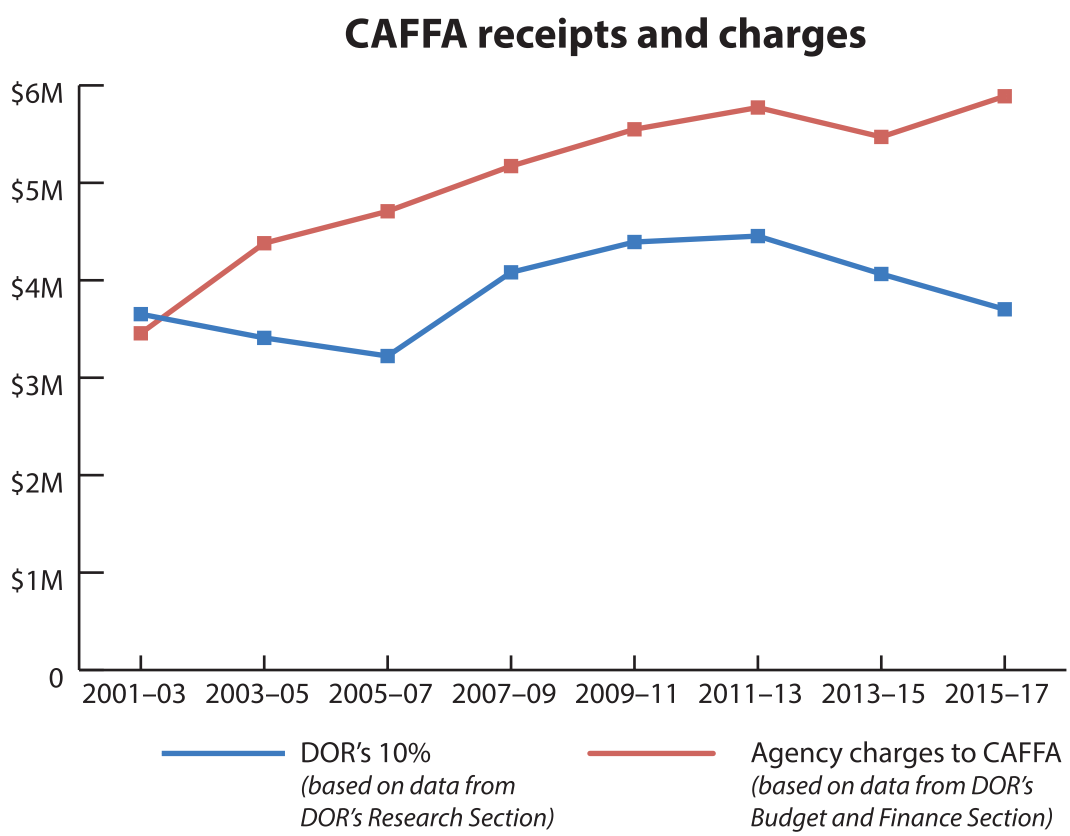
The CAFFA program was created in 1989 to provide a supplemental funding source for assessment and taxation functions for counties and the state. The department was permitted to share in up to 10% of total CAFFA revenues. These revenues were dedicated to fund expenses of valuing industrial properties with a value between $1 and $5 million. Prior to the creation of the CAFFA program, counties had responsibility for valuing all industrial properties with a value of $5 million or less and the department had responsibility for industrial properties with a value of more than $5 million.

In 2001, the legislature passed HB 2207 authorizing the department to use CAFFA revenues to value all state responsible industrial properties and centrally assessed properties. This eliminated the need to associate specific appraisal work with a particular funding source. CAFFA revenues and GF were both permitted to be used to fund all state responsibility valuation work with no distinction made for the specific type of property being valued.

Funding for CAFFA comes from a portion of the interest charged on delinquent property taxes and a portion of the fees charged for recording documents. The department continues to distribute 90% of the CAFFA funds to counties and retains up to 10% of the funds for administration of the CAFFA program and appraisal of state responsible industrial property and centrally assessed accounts.

CAFFA Receipts Compared to Expenses

The current shortfall in the CAFFA program can be attributed to OF CAFFA receipts not keeping pace with the personal services costs associated with the department's valuation work. The following chart shows the growing gap between the department's 10% share of CAFFA revenues compared to expenses.



The department has reviewed recent CAFFA deposits and recording activity along with the expected interest on delinquent property taxes and is forecasting future CAFFA revenues to remain relatively flat over the next few years.

Because these revenues are projected to remain flat over the next few years it will not be enough to cover the operational costs to perform the department's statutorily required valuation responsibilities. Personal Services costs increased 5.6% from 2013–15 and are anticipated to increase up to 11% in 2017–19. The OF revenue from CAFFA is not indexed and is a static fee that will not keep up with inflation associated with Personal Services and Service and Supplies costs.

Efforts to address the shortfall

In an effort to control costs, the department has made several organizational and procedural changes and management decisions to ensure that we stay within the allocated budget. Specifically, we have:

- Re-organized teams within the Valuation Section to better align available resources and expertise with workload.
- Implemented process improvements (e.g. developed a triage process for return processing, refined the Director's review process for centrally assessed accounts, developed and applied metrics to identify areas for improvement).
- Held several appraiser positions vacant.
- Although work is not strictly a set of disconnected tasks, we conducted a time study to determine what constitutes 90% of the work in a given day for each program area. We reviewed historical timekeeping data and surveyed staff to determine the body of work that was in each program area. Based on the analysis, a permanent finance plan has been developed that identifies the funding mix for personal services based on how much time each employee spends on programs associated with GF and/or OF.

Our options for additional improvements have become very limited. With reduced staff available to perform appraisals, and the increased complexity of the work, we may not be able to complete all required work. Based on work performance metrics, and our existing staff, we estimate that we will be unable to process approximately 700 of the estimated total 4,450 Industrial Property Returns this coming season (spring 2016) without moving staff from other statutorily required functions or sacrificing the accuracy of the values. During the past ten years the number of state-appraised industrial accounts has gone up over 47% (2,962 to 4,364) and the number of centrally assessed companies has gone up nearly 9% (465 to 506).

Cadastral

The Service Agreements that DOR has with nine counties to provide mapping maintenance provides that PTD will charge the counties $60 per staff hour to perform the work. The fee for service reimburses PTD for some personal services costs associated with performing this body of work. The fee covers approximately 15% of the personal services costs that is required to perform all of the Cadastral functions.

Action Requested

The department requests that $1,360,125 GF be added to the Property Tax Division appropriation 81400 and the restoration of 7.21 FTE

Legislation Affected

Increase General Fund appropriation made to the Department of Revenue Property Tax Division, Chapter 596, Section 1(2), Oregon Laws 2015, for the biennium ending June 30, 2017 by $1,360,125.

Respectfully submitted,

James Bucholz, Director
Oregon Department of Revenue