

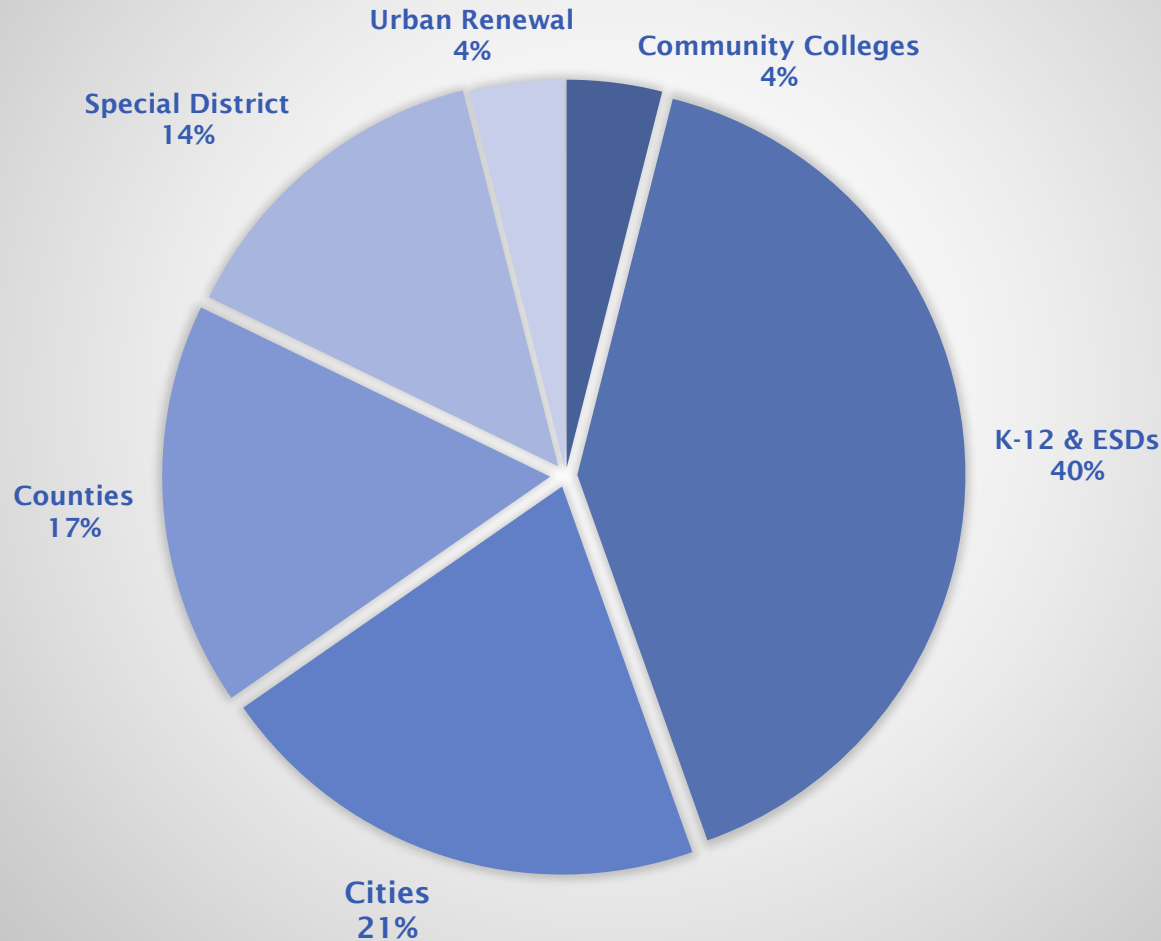
Property Tax Reform



The League of Oregon Cities is committed to assisting with the passage of legislation that will enhance local decision-making, provide sustainable sources of revenue and streamline governmental processes.



Distribution of Property Taxes by Type of Taxing District



Source: Oregon Department of Revenue, Oregon Property Tax Statistics-
Fiscal Year 2014-2015 report

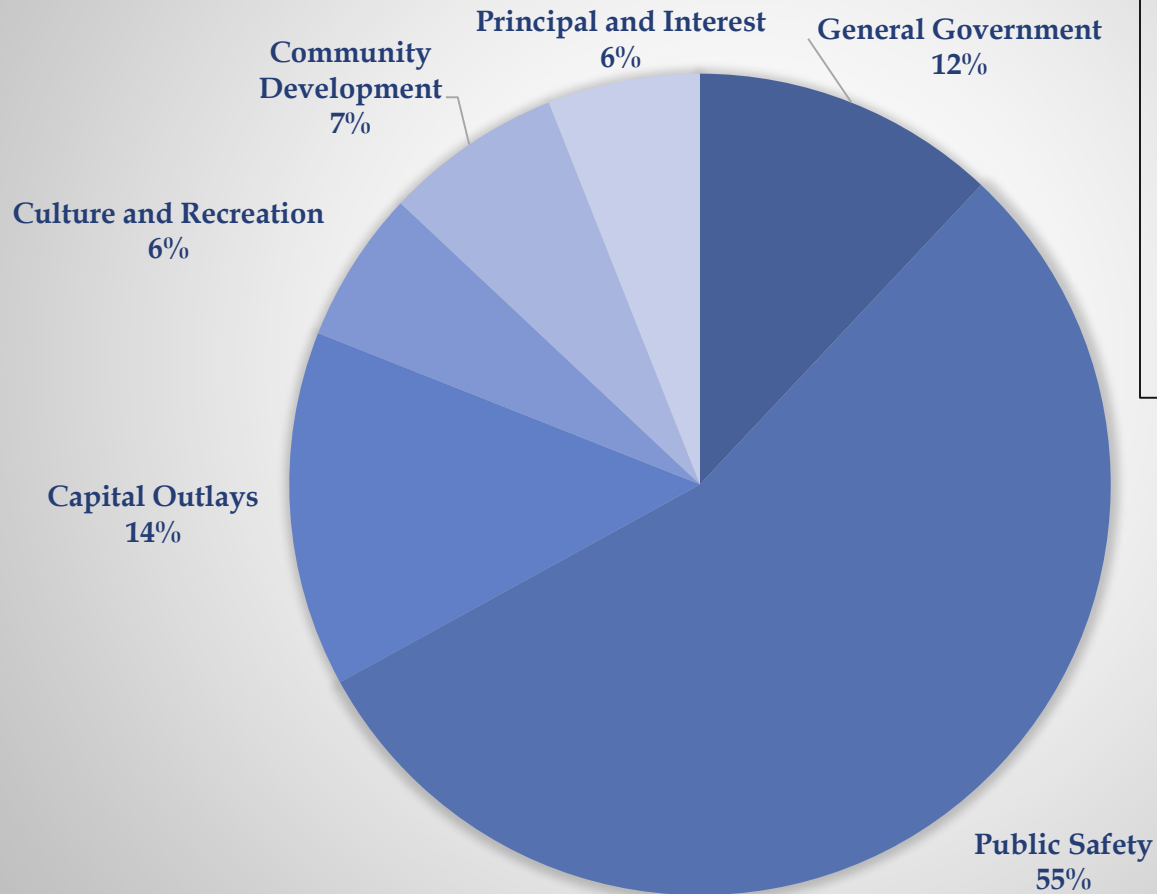
Property Tax Revenues



- ▣ Property tax revenues are vital to schools and local governments:
 - Property taxes, on average, represent 60% or more of a city's revenues (Fees and miscellaneous taxes generally make up the rest of the revenue)
 - Property taxes, on average, represent 33% of the K-12 budget (General Fund dollars make up the rest of the revenue)



City Expenditure: Example



Decreases in property taxes, exemptions, etc. have a significant impact on city services, especially public safety.

Property Tax Fact



For many communities, property taxes don't cover the costs of public safety

Public safety expenditure as a percentage of property tax collection, FY2013-2014

Gresham	166%	Medford	112%
Pendleton	140%	Salem	107%
Albany	137%	Burns	99%
Grants Pass	124%	Bend	98%
Portland	115%	Coos Bay	92%
Ashland	114%	The Dalles	88%

*Percentages derived from FY2013-2014 comprehensive annual financial reports, available at the Oregon Secretary of State's website



Measure 5 (1990)



- ▣ Capped property taxes for all general governments (cities, counties, special districts) at \$10 per \$1,000 and
- ▣ Capped schools at \$5 respectively per \$1,000 of real market value (RMV)
 - Effectively limits property taxes to 1.5% of RMV
 - ▣ \$200,000 home = \$2,000 limit on general government property taxes; \$1,000 limit for schools
 - ▣ 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 (local option levies) are reduced first, all the way to \$0, before collections from permanent rates are compressed



Problems with Measure 5

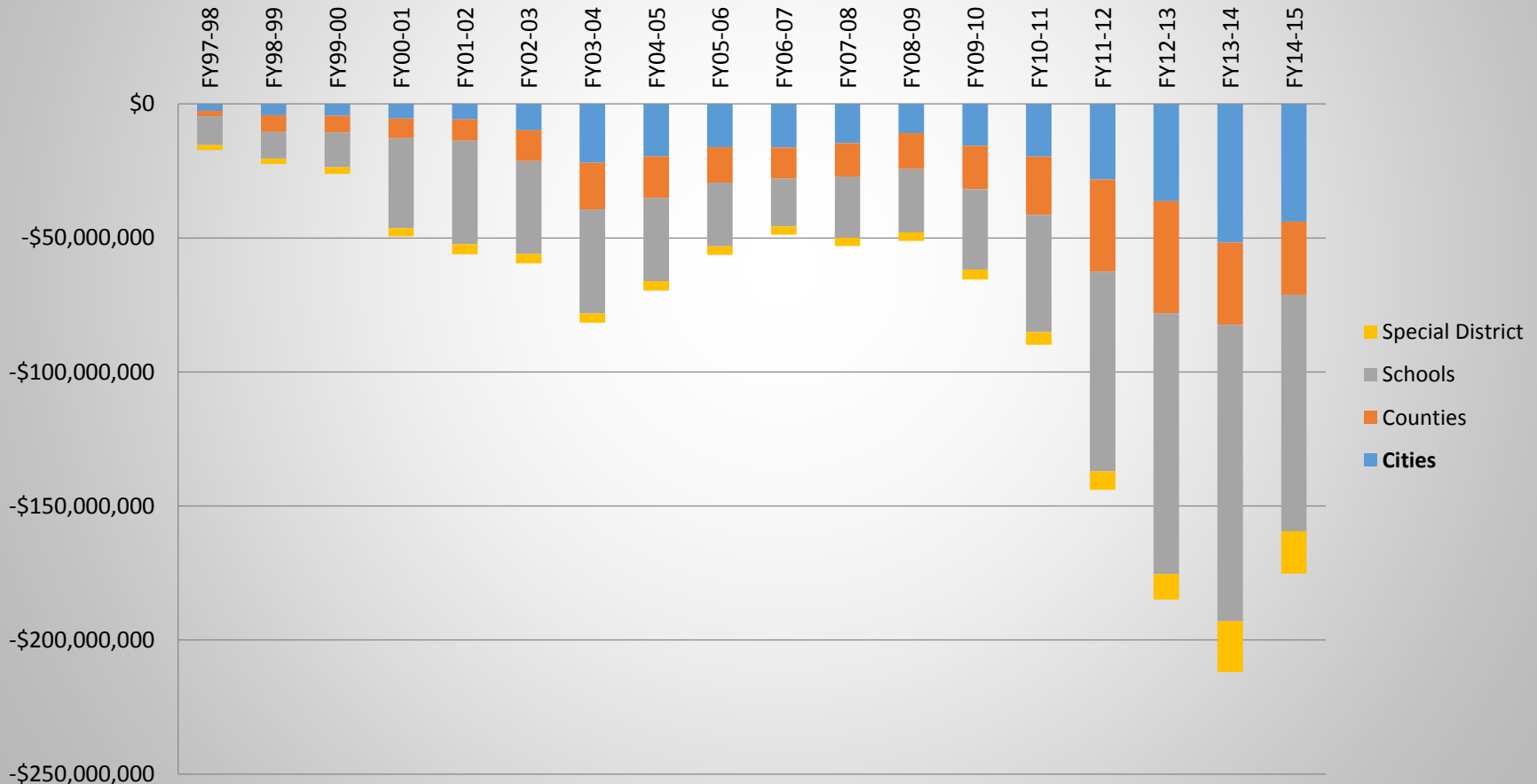
- ▣ Based on FY 2014-15, most taxing districts have reached or are close to the Measure 5 limits. Costs continue to increase.
- ▣ For FY 2014-15: **60%** of cities, **97%** of counties and **89%** of school districts are in compression caused by Measure 5 restrictions.
- ▣ Revenue lost to compression:
 - FY 2014-15 = \$175 million
 - FY 2013-14 = \$212 million



Compression Losses for Cities, Schools and Counties



Revenue Lost to Compression



SJR 201



Bill fails to adjust Measure 5 limits.

- ❑ We need them either raised or eliminated (potentially with a built-in cap adjustment for inflation)
- ❑ Limits are 25 years old
- ❑ Low limits were put in place as voters thought they would be getting a sales tax
- ❑ Local option levies which are subject to compression have taken away voter/local choice

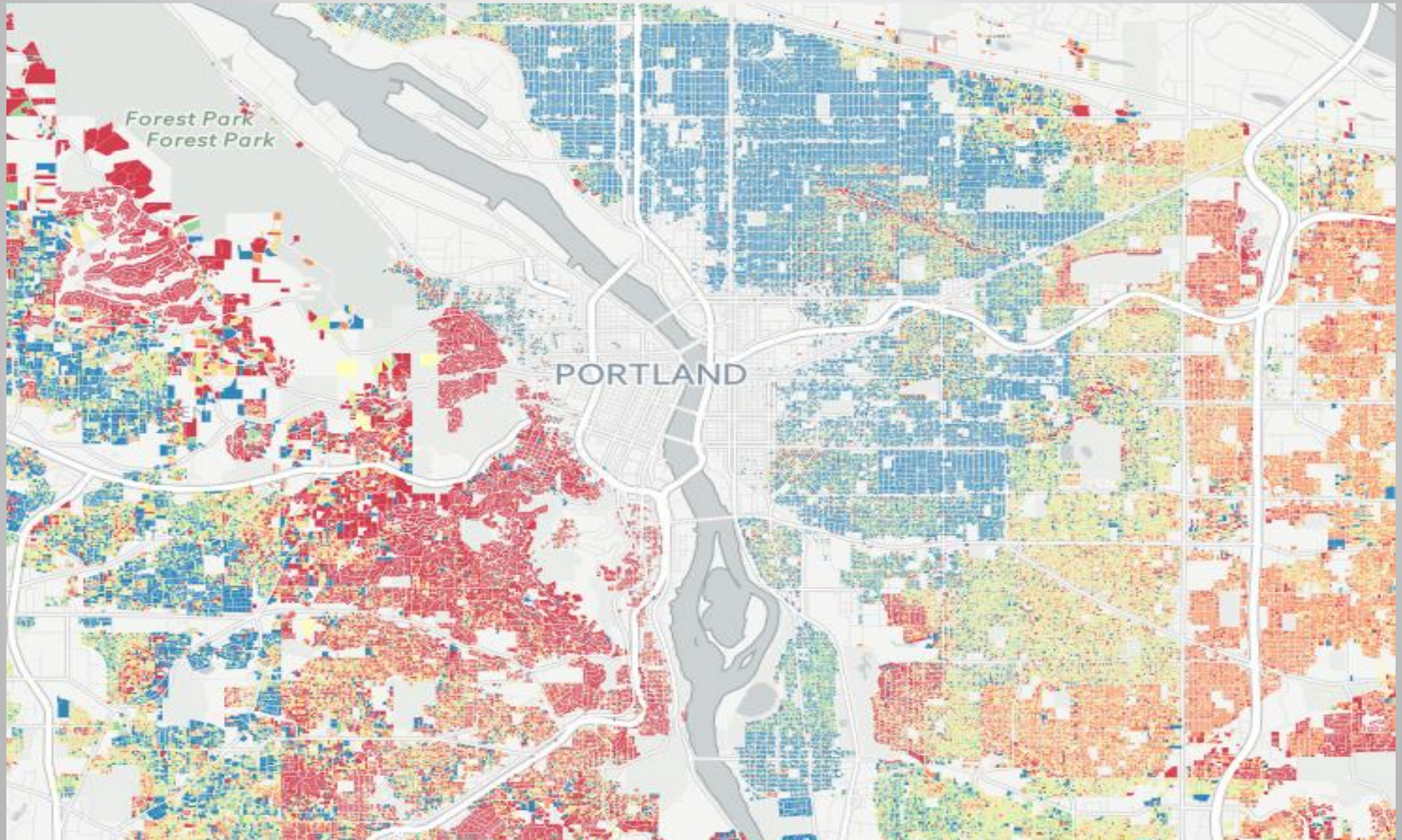


Salem's Situation



- ▣ Estimate of \$60 million in property taxes for FY 2016 budget, compared to \$65.7 million in Police and Fire budget
- ▣ Total local government category > \$10 per \$1000
- ▣ Salem lost \$1,093,204 to compression in FY 2014-15 (ranked third in state)
- ▣ Salem permanent rate is \$5.83, no local option levy, and bond levy of .99 for total of \$6.82 per \$1000
- ▣ Reduced General Fund positions by 11.5% over last 4 years (approximately 89 positions)

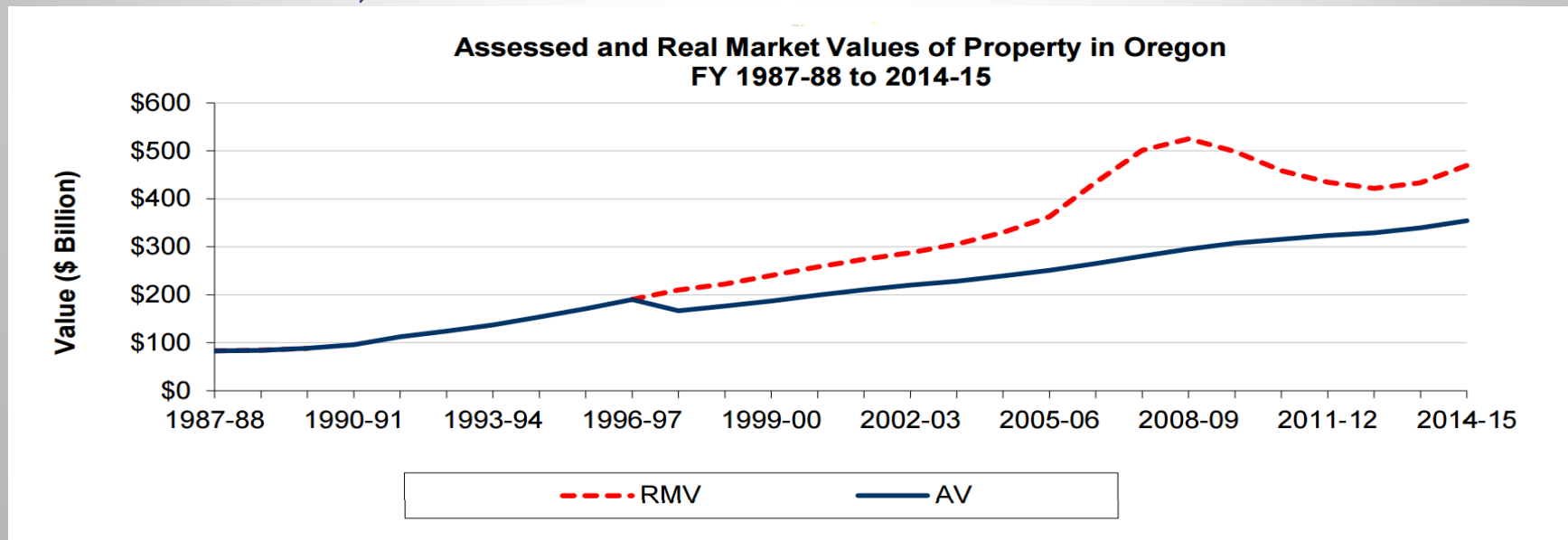
Property tax winners and losers in Portland area



Measure 50 (1997)

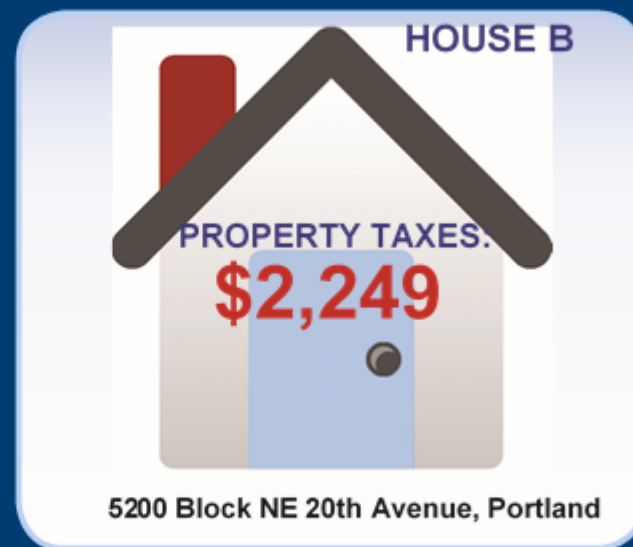


- ▣ Set a new assessed value (AV) level
 - At 10% less than 1995 RMV
- ▣ Capped annual growth in AV at 3% annually
- ▣ Set permanent rates for all taxing districts (froze at 1997 rate)



Due to Measure 50, Major property tax inequities exist between homeowners

Both houses sold in June 2013 for approximately \$325,000



Difference in property taxes paid per year: **\$3,437**

Tax amounts in this example are from FY 2015-16.

RMV in 1997: \$178,300

RMV in 1997: \$98,000

Inequities are not confined to the metro region

Both houses sold in mid-2013 for approximately \$160,000



Difference in property taxes paid per year: **\$993**

Tax amounts in this example are from FY 2015-16.

RMV in 1997: \$135,050

RMV in 1997: \$69,730

SJR 201



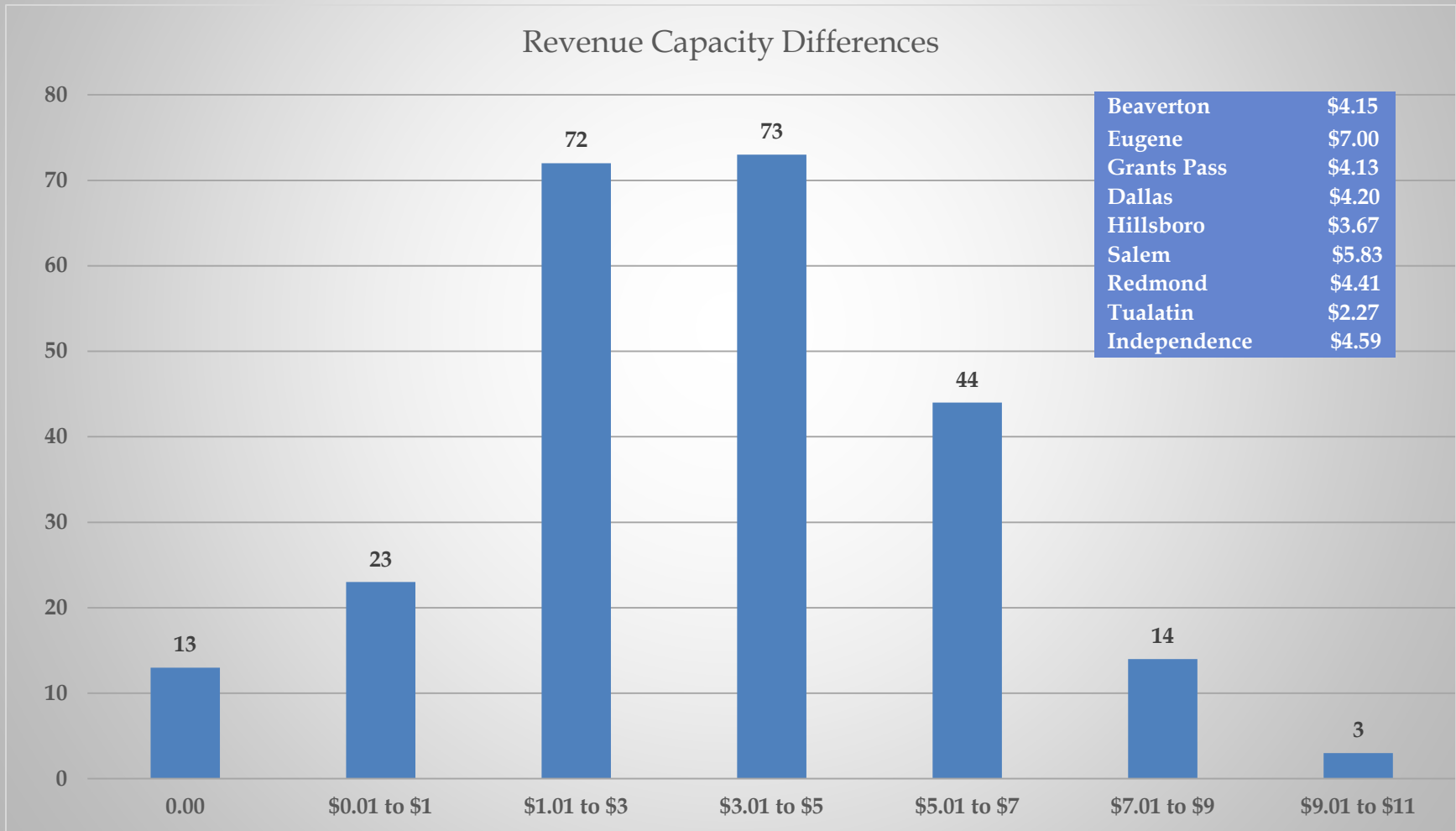
We support these components of the bill:

- + The bill addresses inequities caused by Measure 50 by eliminating the AV computation.
- + The bill goes back to the economic reality of RMV.
- + Gets rid of 3% growth limit on AV.
- + Permits RMV average so there is less volatility and more predictability for taxpayers and government.
- However, the bill needs to include a transition period.
- The bill also needs to address the significant permanent rate problems from Measure 50.

Permanent Rate of Oregon's 242 Cities:



Revenue Capacity Differences



SJR 201



Bill should be amended to address permanent rate problems from Measure 50 because:

- ❑ Frozen permanent rates are arbitrary and don't have a tie to service needs today
- ❑ Permanent rates are 18 years old
- ❑ Present rates create competition between taxing districts/ new district creation issues (local options force districts into compression)
- ❑ Penalizes districts that are imposing less than their permanent rate (10 cities)
- ❑ **Proposed language change: (3)(a) A local taxing district's permanent limit on the rate of ad valorem property taxes shall be the permanent **rate** limit **authorized** ~~on the rate of ad valorem property taxes imposed~~ by the local taxing district on the effective date of this 2016 Act.**

Principles of Property Tax Reform

- ▣ Stability / predictability
- ▣ Fairness / equity
- ▣ Simplicity / clarity
- ▣ Adequacy / sustainability

Principles of Property Tax Reform

- ▣ Voter/local option
- ▣ Home rule is protected
- ▣ Competitive environment to retain/attract business



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CITIES

Issues

Local Option Levies – M5 Limits



City of Sweet Home

- ▣ Permanent rate of \$1.42
- ▣ Police and Library services funded through Local Option Levies since 1986
- ▣ Other taxing entities have also passed levies
- ▣ Voters reapproved levies in 2010 (nearly 60% and 55%)

Issues

Local Option Levies - M5 Limits



City of Sweet Home - November 2015 Election

- Increased both levies, with hope of keeping more revenue in Sweet Home when compression occurs

Tax District	Tax Rates Remain Same	SH Levies Increased	Change in Distribution
Linn County	\$ 191	\$ 191	\$ -
Linn County Sheriff Levy	\$ 229	\$ 174	\$ (55)
City of Sweet Home	\$ 212	\$ 212	\$ -
City - Police Levy	\$ 518	\$ 560	\$ 42
City - Library Levy	\$ 67	\$ 83	\$ 16
Ambulance District	\$ 226	\$ 226	\$ -
Cemetery District	\$ 32	\$ 32	\$ -
County Extension Service	\$ 10	\$ 10	\$ -
Veterans Home Levy	\$ 15	\$ 12	\$ (3)
Total	\$ 1,500	\$ 1,500	\$ -

Issues

Local Option Levies - M5 Limits



Linn County and City of Albany

- ▣ Linn County voters passed local option levy in 2010, and renewed it in 2014
 - Their two local option levies lost \$5.8 million to compression
- ▣ City of Albany renewed its levy rate in 2012, effective in 2014
 - Raised rate from \$0.95/\$1,000 to \$1.15/\$1,000 to compensate for compression
 - Net of \$0.95/\$1,000 did not happen
 - Lost over \$1 million to compression