SJR 3 A Property Tax Reform Recommendation

Testimony for Senate Finance and Revenue – Jody Wiser – 2.21.2017

Let's think strategically about how to make real change. The effort to reform all property taxes in one fell swoop asks too much. Passing and successfully implementing reforms for business property taxes should be the first step. It will help educate voters about the deep inequities between properties – both commercial and residential, and show that we can get it right.

We know from polling that the public will reject a change in their property taxes – at least without someone spending $30 m to change their minds. And we don't have $30 m to make this really important change. But there is a way forward.

The ideas presented and policy choices outlined in SJR 3 are right on:

- Phase in a return to Real Market Value with an adjustment of rates
- Use multi-year averages of RMV to reduce the dramatic ups and downs that come with straight RMV – for owners and local jurisdictions alike
- End the 3% timely payment discount
- Set floors for education and public safety funding so the state doesn't have to pick up the pieces

We would add one more – discontinue exemptions from those floors – for any kind of e-zone, port or airport property. Businesses rely on public safety and schools just as do their customers and employees and we can't afford to dismiss them from responsibility.

The sum total of Oregon's taxes – state and local combined -- are amongst the fairest in the country, when one looks at the distribution of the impact across income groups. We want to keep it that way. But when you look at the specifics you get a different picture. Our income tax is good, and needs to be higher than most states to make up for the fact that we have few sales taxes. But our property tax is a nightmare. Similarly valued properties pay radically different amounts for the services, and the amount of revenue generated isn't what it needs to be given our reliance on income and property taxes alone.

We propose, for both practical and political reasons, that we start reforming our property taxes with business properties alone.

1) The inequities of Measures 5 & 50 are more dramatic among business properties than residential properties, and they are as a group, paying even less of their real market value than are residential properties. The attached charts demonstrate this.

2) The voters are far more likely to vote to "fix" the inequities of business property taxes than their own, given the recognition that Oregon is a low-business-tax-state, and the increased tax burden will for now fall on the other guy.

The most advantageous part of this approach is that during the battle over "fixing" the property tax problem with business properties, we can make the case that the same inequities exist with homes, apartments and condos, setting the stage for a later step. We can prove that it can be done, and should be done.

California is 12 years further down the property tax limitation road than Oregon. My father in law's home, built for $9000 in 1951 is now worth $2 million. But his property taxes are less than $1000 a year. His new neighbors' property taxes are twice that much a month. California has not found a way to win a change since 1978's property tax measure passed. We've been stuck for 27 years with the after effects of Measure 5, fixed somewhat by Measure 50.
And we've great examples. We've got the Mrs. English for the campaign, actually more than one.

Big Pink, the 42 story Bancorp Tower, built in 1983 pays astoundingly low taxes. Sold in 2015 for $372 million, its owners pay property taxes on only $58 million of assessed value. Further, they are in the habit of paying their $1.3 m in taxes in November, striking $40 k off the bill with the 3% discount. Their taxes are 1/6th what they would be if taxed a Real Market Value. Of course we shouldn't raise the taxes on this or any other building in one fell swoop; the increases should be phased in.

Comcast, according to the Oregon Department of Revenue, had $2.317 billion worth of property in Oregon, but it was assessed at $1.47 billion, in 2015[1] That's significantly less than the discount Big Pink is getting.

Of course, rates would come down as values go up, so one wouldn't see the dramatic increases one might imagine. But there would be a shift -- similarly valued properties would pay similar amounts in property taxes, and over time, businesses would begin paying closer to their real market values.

We should end the 3% discount for "timely payment", a tax credit we share with only Florida and New York, which is costing k-12 and local jurisdictions $158 million a year. [2]

Would this raise costs for the tech companies streaming here from Silicon Valley? Probably, but the cost of office space will remain more expensive in San Francisco, Seattle, Tacoma, Everest, San Diego and the Silicon Valley. Portland will remain a good deal for them.

We commend the serious work demonstrated in the ideas presented last week by Wendy Johnson of the League of Oregon Cities. We would be happy to work with you on each of the policy areas she highlighted in her presentation. But we propose that the way to succeed with a property tax reform is in steps, first business properties, and then residential – after we prove that we can move to a more equitable property tax system with grace.

We read the bills and follow the money ***2.20.2017***

[1] Final Assessment Roll prepared by Oregon Department of Revenue for 2015
[2] Email from Kyle Eastman of LRO, 2.17.2017. The cost has grown from $132 m in 2013 to $158 m in 2016