LEAGUE OF OREGON CITIES

CITY PROPERTY TAX REPORT

WITH FY 2014-15 SUMMARY DATA AND TABLES

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Executive Summary

As the single largest source of tax revenues for cities, property tax revenues fund essential city services including police, fire, roads, water, parks and more.

Oregon's property tax system is largely governed by Measure 5 (1990) and Measure 50 (1997), two laws that are part of the Oregon Constitution and thus require an initiative or referral in order to be revised. The impacts of these measures have evolved over the past 20-plus years to create an inequitable system characterized by unreasonable restraints and limits.

This system is long overdue for reform.

The Oregon Department of Revenue (DOR) compiles an annual report of property tax data. The new FY 2014-15 data from the DOR highlights these key points for cities:

1. Property taxes generated $5.5 billion in revenues, a $200 million increase from the previous year. Twenty-one percent of property taxes were distributed to cities. Property taxes imposed by cities totaled $1.2 billion, a 5.3 percent increase from the previous year. The increase reflects rising real estate values after years of decline.
2. The total real market value (RMV) of property in the state is $469.45 billion this year, a $36 billion increase from last year. The total assessed value (AV) of property is $354.34 billion, which is a $14.6 billion increase. This represents an 8.3 percent increase for RMV and a 4.3 percent increase for AV over last year's values. The gap between the two, often referred to as the "discount rate," remains large at $115.12 billion. This gap is indicative of tax inequities that are now commonplace between similarly valued houses in many neighborhoods.
3. Cities' property tax rates are composed of the permanent rate, local option levies and bond levies.
   - City permanent rate authority accounted for $942.7 million of the total taxes imposed, representing a 5.3 percent increase from last year. The average city permanent tax rate is $3.55 per $1,000 AV, but permanent rates range from $0 to $10.62. Despite these serious inequities in rates, permanent rates are frozen at 1997 levels and cannot be increased due to Measure 50.
   - Twenty-eight cities had temporary local option levies this year ranging from $.20 to $7.22, with an average of $1.29 per $1,000 AV. Revenues from local option levies increased 16 percent for a total of $60.8 million.
   - Ninety-five cities have bond levies this year, and the rates ranged from $.05 to $5.07 with an average of $.82 per $1000 AV. Bonds generated $78.9 million in revenues for a 2.1 percent increase.

   City local option levies and bond levies continued to pass consistently, with a 78 percent passage rate in 2015.
4. Cities' property tax revenues continued to be reduced due to Measure 5. Sixty percent of cities have some compression, and revenues lost totaled $43.93 million. Total compression for all taxing districts was $175.2 million, down about 9 percent from last year. Some cities are hit harder than others by compression, with some cities losing more than one quarter of their taxes imposed to compression. Other cities, while not in compression, are so close to the limits that a levy would be ineffective as it would cause compression. Voters' choice for services have been thwarted by the outdated limits.

5. There are 132 property tax exemptions and special assessments in Oregon’s statutes, and the revenue loss attributed to them is estimated at more than $12 billion. That number means that the yearly value of the exemptions and special assessments given is more than twice the $5.5 billion in taxes imposed for the year. The public exemptions make up the largest category, followed by the business category and the social welfare/charitable category.

5. Property Tax Exemptions[8]

There are 132 tax expenditures related to local property taxes today; these include full exemptions (95), partial exemptions (23) and special assessments (13). The revenue loss attributed to these expenditures is estimated at $23.6 billion for 2013-15 and $25.9 billion for the 2015-17 biennium. That is, of the $469.25 billion of RMV property in Oregon, $121 billion of RMV is exempt. Unlike state income tax exemptions and credits, most property tax exemptions are not reviewed regularly and thus the Oregon Revised Statutes are riddled with a long and complex list of exemptions. Some are automatic and some are local option exemptions. Many were passed to support economic development, but it has become apparent that many property improvements and purchases would be done without the property tax exemption or special assessment. Thus, they fail a "but for" test and are not really economic incentives, but tax giveaways.

The Oregon Department of Revenue assigns all property tax exemptions to three categories: public exemptions, social welfare exemptions and business/housing/misc. exemptions. The graph below compares the exemption categories.

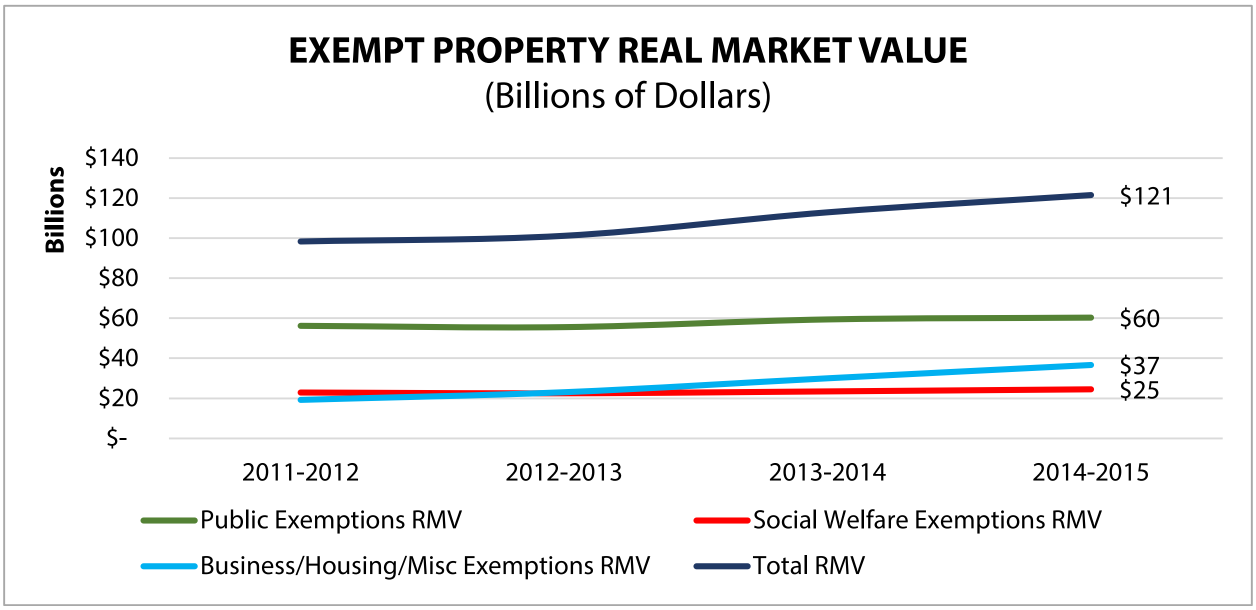

Figure 10: Exempt Property Real Market Value

Public Exemptions:

The public exemption category is the largest, exempting some $60 billion worth of property (RMV) from tax rolls. Two exemptions make up the bulk of this category: ORS 307.090 provides an exemption

[8] The Budget Accountability Act requires the governor, with the assistance of DOR and DAS, to produce a biennial tax expenditure report along with the governor's budget. The data cited in this section of the report comes from the 2015-17 biennium report. See page 5 and Chapter 2 of that report which is dedicated to property tax expenditures. Thus, while the report generally uses numbers for fiscal year 2014-15, this section of the report on exemptions sometimes uses two-year numbers for 2013-15. The revenue loss estimates do not include revenue shifts nor expenditures less than $100,000.

for state, city, county, school district and special district property, which translates to more than $2.7 billion in lost revenue; and ORS 307.040 provides an exemption for federally-owned property, which translates to more than $1.9 billion of lost revenue per biennium.[9]

Business/Housing/Misc. Exemptions:

The next largest exemption category is for business/housing/misc. exemptions. During the 2012-13 biennium, this category surpassed the social welfare category and is continuing to grow. Business/ housing grew 22 percent from 2013-14 to 2014-15, while the other exemption categories have been flatter in their growth. The business category exempts more than $37 billion of property (RMV). Inventory ($955 million in lost revenue) and motor vehicles and trailers ($901 million) are the largest exemptions in the category. While local governments desire economic development, the growth in this category shows an ever-increasing reliance on local governments to provide tax incentives to business—not the state. The state, which depends primarily on income tax revenues, has cut income tax credits and other incentives for economic development in recent years.

Social Welfare Exemptions:

The social welfare category is the smallest but still exempts more than $25 billion of property. Charitable, literary, benevolent and scientific organizations (nonprofits) are provided an exemption in ORS 307.130, and that exemption costs more than $194 million in lost revenue for the 2015-17 biennium. This exemption will be the focus of a 2015-17 interim legislative taskforce. Property of religious organizations is the second largest in this category, translating to a revenue loss of more than $113 million per biennium for the exemption that is provided in ORS 307.140.

When all of the exemptions and special assessments are totaled, the net is that exemptions and special assessments are far greater than the taxes imposed by more than two times. The following graph displays this disparity:

[9] See page 30 of Oregon Property Tax Statistics and page 15 of the Tax Expenditure Report.

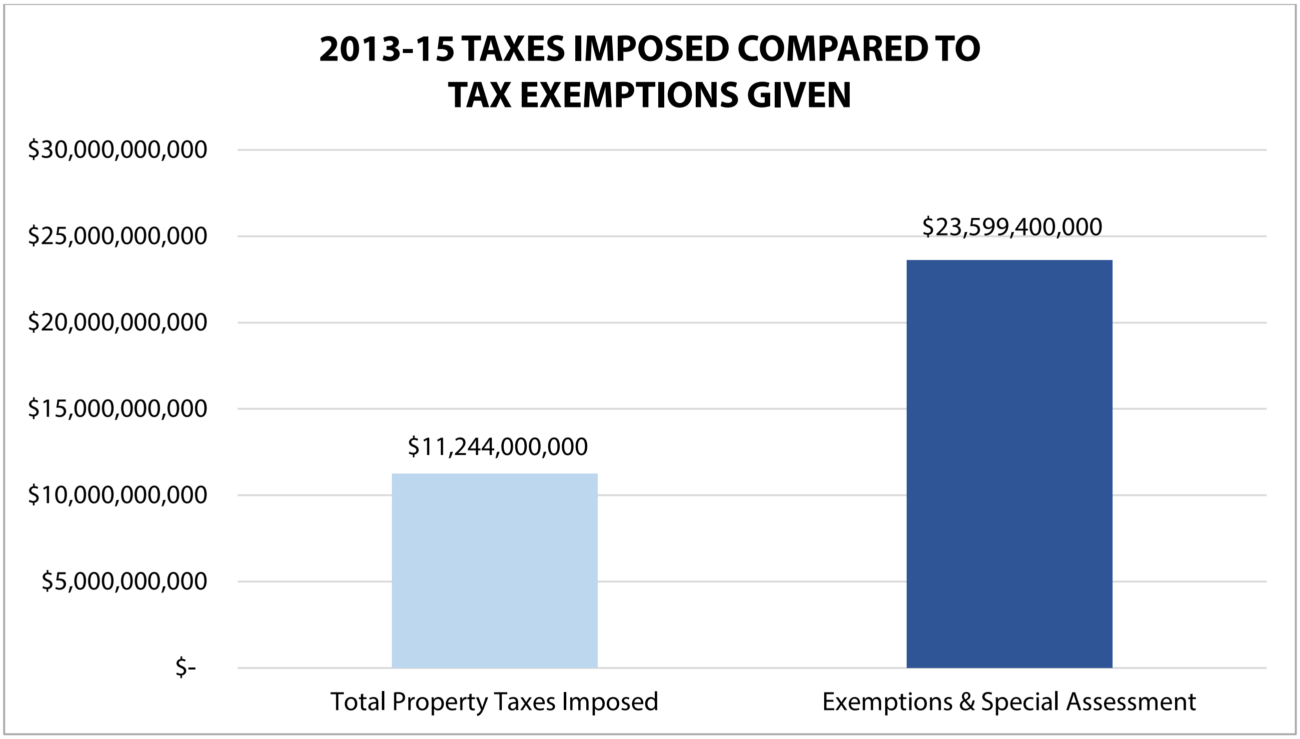

Figure 11: 2013-15 Taxes Imposed Compared to Tax Exemptions Given

Conclusion

The Fiscal Year 2014-15 tax data shows modest increases in both property tax revenues and property values. The data further shows that inequities with the property tax system continue to be a serious problem.

For several reasons, it is no longer feasible to justify retaining the out-of-date Measure 50 (1997) any longer due to the continued problems and inequities it creates. First, the system creates tax inequities amongst homeowners of similarly valued homes because taxes are based on Measure 50's assessed value and not on traditional real market value. The gap between these two values is large for many properties.

Second, the system has created arbitrary inequities amongst taxing jurisdictions. Similarly-sized cities have disparate permanent rates as the rates were frozen at 1997 levels. These rates became the "permanent rate" under Measure 50. Measure 5 (1990) limits have not only caused inequities but they have thwarted voter choice. That is, even when voters elect to pay a temporary tax increase, the tax has to be reduced by the assessor due to Measure 5. This year, 60 percent of cities are in this situation, known as compression, as the city rates when combined with other approved local government property tax rates exceed the Measure 5 limit of $10 per $1,000 of real market value. Compression reduced city revenues by nearly $44 million this year.

Lastly, property tax exemptions and special assessments have grown to staggering numbers and when totaled are valued at more than twice the taxes actually imposed. Property tax reform is long overdue, and the League will continue to advocate for constitutional changes. A reformed property tax system should be built with the following principles:[10]

- Stability/predictability;
- Fairness/equity;
- Simplicity/clarity;
- Adequacy/sustainability;
- Voter/local option;
- Home rule protection; and
- Competitive environment to retain/attract business.

[10] Principles were adopted by the League of Oregon Cities Board of Directors on December 4, 2015 to guide tax reform.