



Testimony in Support of HB 2088
March 20, 2017

The City of Gresham strongly supports HB 2088, which would repair one of the horizontal inequities in Oregon's property tax system, increasing taxpayer fairness. Most of the common problems with Oregon's property tax system are written into the Constitution, making them very difficult to remedy. Unlike the Constitutional issues with property taxes, HB 2088 would increase fairness by making a small change to statute related to the Changed Property Ratio.

Problem:

During the discussions related to implementing Measure 50, the issue of how to establish a Taxable Assessed Value for new developments or improvements to existing properties was discussed. The ultimate remedy at the time was to have new developments and improvements come on the tax rolls with a Taxable Assessed Value to Real Market Value ratio that reflects the average of the county in which the development or improvement is occurring (now known as the Changed Property Ratio).

This methodology makes sense, if one were to assume that market forces within counties are substantially similar. Unfortunately, over the two decades since the passage and implementation of Measure 50, we have learned that market forces, even within counties, can be extremely different. In Multnomah County, areas of Portland have seen prolonged double-digit growth in market values, while Gresham has seen much slower, stable growth. This, combined with Portland's substantially larger size, heavily skews the ratio downward. This results in a condition where older homes in Gresham have a much higher Taxable Assessed Value (as a percentage of their market value) than new construction.

To put that in actual numbers, on average homes in Gresham currently have a Taxable Assessed Value that is 75% of their Real Market Value. The much faster market value growth in Portland, however, has resulted in a countywide average Taxable Assessed Value that is 53% of Real Market Value, over 20 percent less than Gresham's average.

That means that when new properties in Gresham are developed, or improvements are made to existing properties, they come onto the tax rolls with an immediate and substantial subsidy,

compared to existing, established homes, disproportionately and unfairly putting the burden of paying for public services on the shoulders of taxpayers who own older properties.

Solution:

While most of the property tax inequities caused by Measures 5 and 50 are written in to the State Constitution and require an initiative or voter referral to correct them, the establishment of the Changed Property Ratio was one of the statutorily-implemented aspects of Measure 50, meaning that it can be changed through legislation. HB 2088 makes a small statutory adjustment to allow cities to elect to have a Changed Property Ratio that reflects their own average Taxable Assessed Value to Real Market Value ratio, if they so choose.

Notably, this remedy would not change the property tax bill of any property currently on the tax-rolls. The new Change Property Ratio methodology would only apply to properties that have not yet been built or improved, and would ensure that those properties, in situations like Gresham's, are assessed at a much more equitable rate, compared to similar properties within the same jurisdiction.

Summary:

While certainly not an all-encompassing, comprehensive solution to Oregon's property tax problems, this proposal would increase horizontal equity by ensuring that homes and properties recently added to the property tax rolls do not receive a heavy subsidy, relative to established households within a city.

Not only would HB 2088 increase fairness, but by eliminating the unintended and artificial subsidy, new properties would have a more appropriate Taxable Assessed Value, which would also increase the amount of property tax revenue available to public schools, decreasing the amount of state revenue required to support local schools.