

Date: March 20, 2017
To: Senate Finance & Revenue Committee
From: The Association of Oregon Counties
Subject: Senate Bills 700 and 160

Please add to the records of the Senate Finance & Revenue Committee these comments related to Senate Bills 700 and 160, which are on the committee's agenda for public hearing on March 20, 2017.

AOC opposes Senate Bill 700

SB 700 would grant property tax relief to homesteads of seniors on fixed incomes. The goal of the bill is laudable, but carries with it difficulties and questions both practical and fundamental.

Note: AOC assumes that SB 700 will stand alone and not be part of a comprehensive public revenue reform package. Such a reform package would be analyzed as a whole.

SB 700 would limit the total amount of taxes due on the homestead of an individual 65 years of age or older whose primary sources of income are fixed income sources. The limit would be equal to the total amount of taxes due for the property tax year immediately preceding the first property tax year to which a valid claim is filed. Amounts in excess of the limit for any property tax year shall be abated. The limit applies to only the first 10 acres of land on which the homestead is situated and to only that portion of a multiunit dwelling that the individual actually occupies as a homestead. The limit may be transferred to a new homestead once every three years.

Practical points: AOC is concerned that this bill could have a major impact on public revenue, and county assessors wonder whether they are able to administer it at all. The assessors do not have the capability to automatically abate or defer a portion of property taxes levied; it would require a computer system rewrite.

The bill raises another fundamental, governance question. Oregon has an imperfect state-county shared services and revenues system, but we work to improve it. The shared services are strikingly visible on this colored table. The shared revenues were born from historic agreements between the state and counties; typically when counties relinquished taxing or jurisdictional authority in exchange for a share of state revenues from that source. Examples include cigarette taxes; beer and wine taxes; video lottery revenue; county forest trust lands revenue, gas tax, and assorted regulatory fees. (Oregon is a rare home rule state, but again the lines of authority are imperfect).

The immediate needs for state revenue often trump historical state-county shared revenue agreements. The Legislature has the power to do this in certain instances in spite of the offense to prior agreements. Witness the sweeps of 2009, some of which have not been replaced.

Senate Bills 700 and 160 are two excellent examples of how our relationship should and should not be done. If this is sound statewide public policy, why does the bill use critical **local** property tax resources to pay for it? Other states use income taxes, such as a refundable income tax credit, as a “circuit breaker”. Contrast Senate Bill 160 as an example of this more appropriate approach to state property tax expenditures. AOC is neutral on SB 160.

The income tax in Oregon is, after all, the major revenue source for the state, and this bill imposes state policy. Under Oregon’s rate-based property tax system, which is already cut, capped, and limited to benefit the property owner, a property tax expenditure causes a straight loss of revenue for essential local public services.

And there is an existing program, the Senior Citizens Property Tax Deferral Program, that is state-funded and pays the homeowners’ local property taxes in exchange for a lien on the house. Might an affordable adjustment to this program meet the purpose of the bill?

The Task Force on Comprehensive Revenue Restructuring (Jan. 2009) made this short-term recommendation: “Refrain from new property tax expenditures or state mandates on local governments. This recommendation is directed at the Legislature and essentially says ‘do no harm’ that will make local government’s fiscal situation worse”.

See also ORS 306.350, et.seq., the clear legislative statement of respect for the state-county shared revenue and services system. It provides that when a new property tax expenditure (exemption or special assessment) is created or an existing property tax expenditure is expanded, 50% of the amount of property tax revenue of a city, county, or non-school special district that are foregone as a result shall be funded by amounts appropriated to the Property Tax Expenditure Fund Account (ORS 306.356). Exceptions to this rule are if the loss is offset by repealing or restricting another property tax expenditure; extension of the operating period of the property tax expenditure; or a local option.

See also the Governor’s Task Force on Federal Forest Payments and County Services (Jan. 2009), Recommendation # 40: Provide sufficient funding for ORS 306.350.

Although introduced to serve a good purpose, SB 700 would impose new local administrative costs, violates the state-county partnership, and uses an inappropriate funding source. **Please vote no on SB 700.**