OREGON DEPARTMENT OF REVENUE

2017

Presentation to the

Ways and Means Committee

Responses to questions from committee members

May 11, 2017

OREGON DEPARTMENT OF REVENUE

Response to questions

Please provide information on the property tax exemption for nonprofit homes for the elderly, including eligibility requirements.

The purpose of the Nonprofit Housing for the Elderly Program is to assist private, nonprofit corporations in providing permanent housing, recreational and social facilities, and care to elderly citizens (those over age 62). Through the program, these corporations can apply for a property tax exemption for property that is used as rental housing or to provide services to seniors. The state is required to make payments to the counties for the amount of the exempted taxes, which the counties distribute to local government taxing districts (ORS 307.244 and 307.248).

As defined in the Oregon Tax Expenditure Report (expenditure 2.026), qualifying properties are: "Homes for the elderly built or acquired after January 1, 1977, by private nonprofit corporations (defined in ORS 307.375) that receive subsidies under certain federal and state housing programs are exempt from property taxation." Only the land and improvement value may be exempted. If the corporation receives a state subsidy, the exemption doesn't apply to any property added after January 1, 1990.

To qualify for this exemption, all of the following must also be true:

- The corporation must be organized and operated only for the purpose of furnishing permanent residential, recreational, and social facilities primarily for elderly citizens and:
    - Be organized as a nonprofit.
    - Pay no net earnings to private stockholders or individuals.
    - Receive at least 95 percent of their operating gross income (excluding investment income) from payments for living, medical, and recreational expenses and social services and facilities that are made on behalf of the elderly persons who use the corporations facilities.
- The corporation may not charge more than one month's rent as a "move in" fee or deposit, and rents must reflect the property tax savings.
- The occupants do not qualify for the veteran's exemption or homestead tax relief.
- Additional details on qualifications are provided in ORS 307.241 to 307.245.

Under this program, counties bill the Department of Revenue for an amount equal to what the exempted taxes would have been. Historically, funds to pay for this exemption have been appropriated as part of the Elderly Rental Assistance Program. If that appropriation is not sufficient to pay the liabilities in full, distributions to both Elderly Rental Assistance Program participants and the counties for taxes exempted are prorated to align with the appropriation amount.

Beginning with the 2017–2019 biennium, the Nonprofit Housing for the Elderly Program will have a separate appropriation to the Department of Revenue because the Elderly Rental Assistance Program has moved to Oregon Housing and Community Services (OHCS). For the past two years, the state paid approximately $1.7 million per year to counties for this exemption. In 2016, eighteen counties had 42 homes receive this exemption.

According to the evaluation of this program provided by Oregon Housing and Community Services (OHCS) for the Oregon Tax Expenditure Report:

> *"Generally, this expenditure appears to achieve its purpose. The effect of the state funded tax relief is to reduce housing project operating expenses, thereby reducing the rents to project occupants. Tenants otherwise would have to support the property taxes through the monthly rent they pay. The average monthly rent reduction is about $40 per unit. For seniors on fixed incomes, any rent reduction can be significant.*
>
> *Because eligible project sponsorship or ownership is limited to nonprofit corporations, it is assumed the full benefit of the tax relief is passed on to the project tenants. It is also assumed that the elderly households that reside in eligible housing projects have limited incomes that warrant the benefit of this rent reduction."*