

Property Tax Reform



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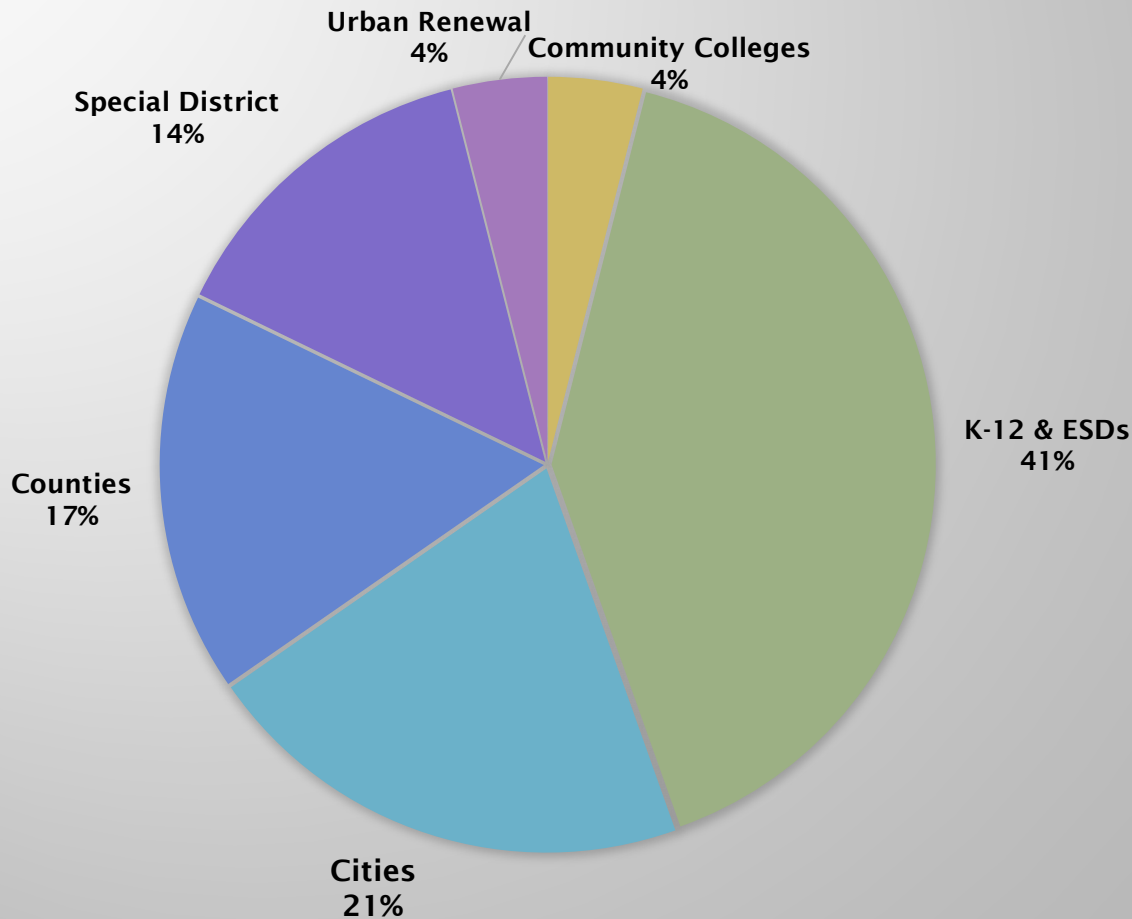


Presentation Outline



- ▣ Property Tax Basics: Who & How much
- ▣ Why property tax reform & paths to get there
- ▣ Property tax reform recent activity
- ▣ Basic tax math formula
- ▣ Measure 5 problems and solutions
- ▣ Measure 50 problems and solutions
- ▣ Altering business and residential property tax burdens
- ▣ Return to levy system as an alternative reform method

Distribution of Property Taxes by Type of Taxing District



Source: Oregon Department of Revenue, Oregon Property Tax Statistics- Fiscal Year 2015-16 report

Property Tax Revenues



- ▣ Property tax revenues are vital to schools and local governments:
 - Property taxes, on average, represent **60%** or more of a **city's** revenues. (Often not enough to cover public safety & fire.) **\$1.26 billion (actual property taxes for 2014-15)**
 - Property taxes, on average, represent **33%** of the **K-12** revenues (General Fund dollars make up the rest of the revenue). **\$3.7 billion (property taxes) + \$7.4 billion (GF)= \$11 billion budgeted for 2015-17**
 - Many **special districts** also rely heavily, if not exclusively, on property taxes for their budgets.

Why We Need Fixes to the Property Tax System



- 1) Inequitable
- 2) Inadequate/ voters can no longer set taxes and pay for services they want
- 3) Overly complicated

Property Tax Reform



Paths:

- 1) Multiple piecemeal initiative amendments to Oregon Constitution; or
- 2) Multiple piecemeal constitutional amendment referrals by the legislature (requires majority vote in each chamber); or
- 3) Constitutional revision by legislature referred to voters (requires 2/3 vote in each chamber); **and**
- 4) Statutory changes via a companion legislative bill

Property Tax Reform— Recent Activity



HB 2171 (2015)(Omnibus tax bill) - Passed

- Bill directed the state's Legislative Revenue Office, in consultation with the DOR, to prepare an analysis and report for restructuring Oregon's state and local government revenue system, due Dec. 1, 2015.

Report available under publications tab at www.oregonlegislature.gov/lro

ANALYSIS OF OPTIONS FOR RESTRUCTURING OREGON'S STATE AND LOCAL REVENUE SYSTEM

**RESEARCH REPORT #4-15
December 2015**

Property Tax Reform— Recent Activity



December 4, 2015: LOC Board of Directors adopts reform principles

LOC is now flexible on the details of a reform package but system should be built with the following principles:

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

Property Tax Reform- Recent Activity



SJR 201 (2016) (Sen. Finance and Rev. Committee bill)

- ▣ Constitutional referral that would have:
 - Returned to RMV as the basis for assessing property
 - Provided a new homestead exemption (details not worked out)
 - Repealed parts of Measure 50 (repealed AV and 3% growth limit)

SJR 201 dies in committee, but conversation shifts to comprehensive property tax reform.

Education of issues continue and hearings have more interest and support. Media attention grows.

Property Tax Reform- Recent Activity



May 2016: After interim LOC committee process, LOC's finance and tax committee again votes property tax reform as priority.

July 2016: League forms property tax work group to make comprehensive recommendations for reform in 2017. Hoping to revise and improve upon SJR 201's provisions, address omissions and provide more details.

- ▣ Small work group includes LOC, assessors, finance directors, LRO staff, DOR, Governor's office, and a public finance manager.

- ▣ Goal: figure out key technical details so have a workable reform framework. Those details are in presentation today.

Property Tax Reform- Recent Activity



August 3, 2016: Based on membership vote, LOC Board of Directors again adopts property tax reform as priority for 2017 session. Broad components:

Constitutional referral:

- ▣ To achieve equity, transitions to a market based property tax valuation system
- ▣ To restore choice, allows voters to adopt tax levies and establish tax rates outside of current constitutional limits

Statutory changes:

- ▣ To enhance fairness and adequacy, makes statutory adjustments.

$$(\text{Property Value} - \text{Exemptions}) \times \text{Tax Rate} = \text{Taxes}$$



- AV/RMV
- 3% growth limit on AV



- Homestead* Exemption
- Charitable, Business, and Public Exemptions



- Permanent Rate
- Local Option Levy



- M5 caps
- 2-3% disc.

Measure 5 (1990)



- ▣ Capped property taxes for all **general governments** (cities, counties, special districts) at **\$10** per \$1,000 total

- ▣ Capped **schools** at **\$5** per \$1,000

- ▣ If the property taxes on an individual property exceed the Measure 5 limits, the taxes are reduced until the limitations are reached, a process known as **compression**

- Effectively limits property taxes to 1.5% of **Real Market Value (RMV)**

Compression



- ▣ Most taxing districts have reached or are close to the Measure 5 limits. Costs continue to increase– PERS, infrastructure, etc.

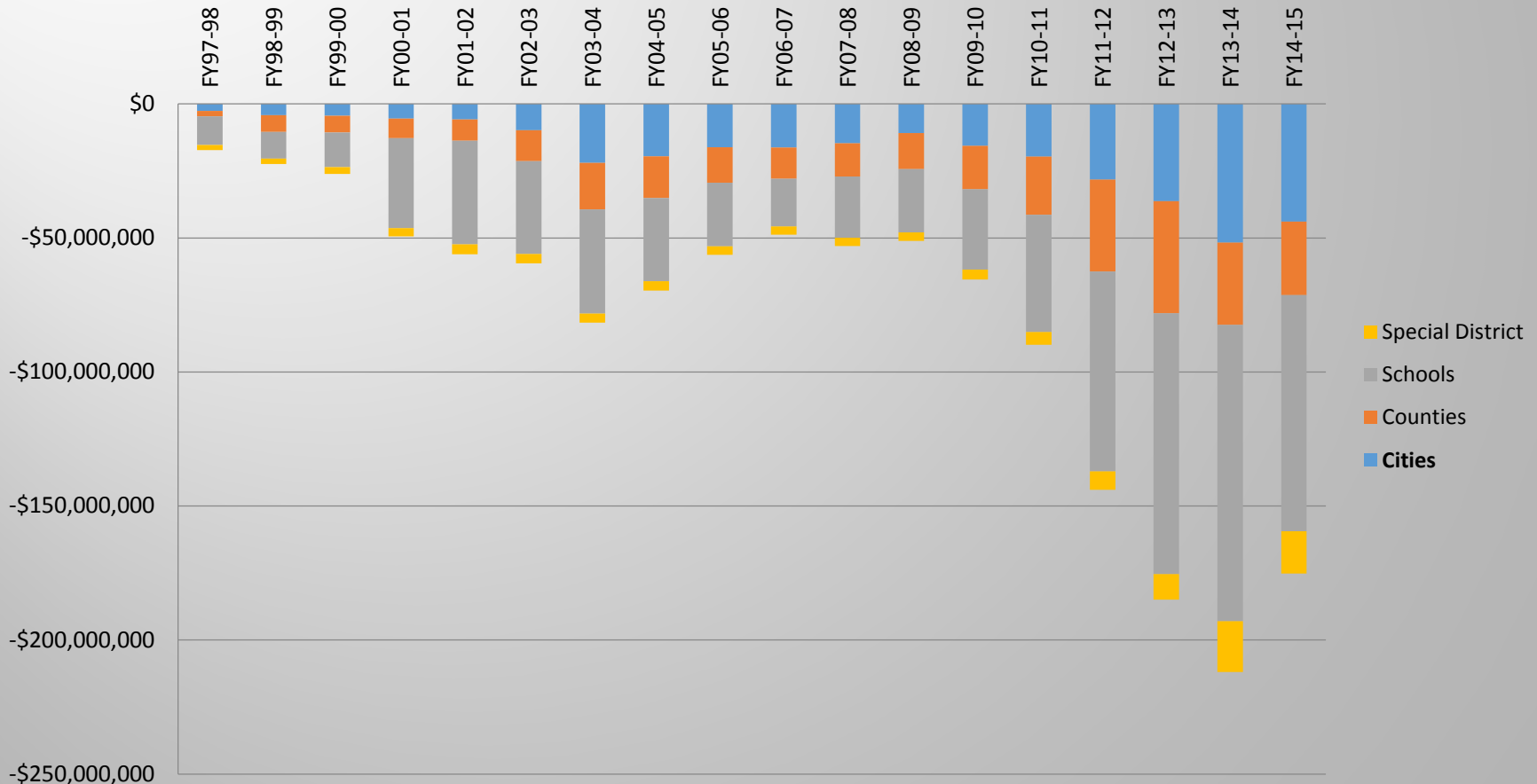
- ▣ For FY 2015-16: **59%** of cities, **97%** of counties and **89%** of school districts are in compression (exceed limits)

- ▣ Total Revenue lost to compression:
 - FY 2015-16 = \$156 million (\$84.81 = schools/ESDs)
 - FY 2014-15 = \$175 million
 - FY 2013-14 = \$212 million

Compression Losses



Revenue Lost to Compression



Reform Needed: Address Measure 5 Caps



SOLUTIONS:

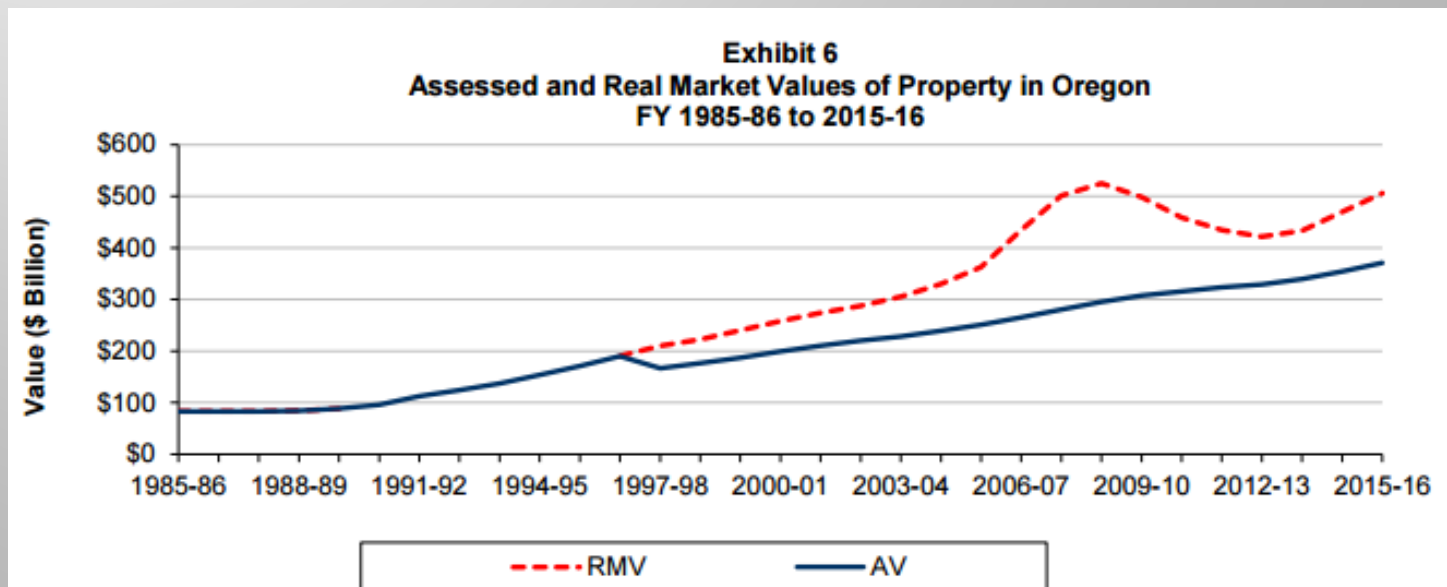
We need to revise the 27-year old Measure 5 caps (\$5/\$10 per \$1000 cap on RMV):

POLICY CHOICES:

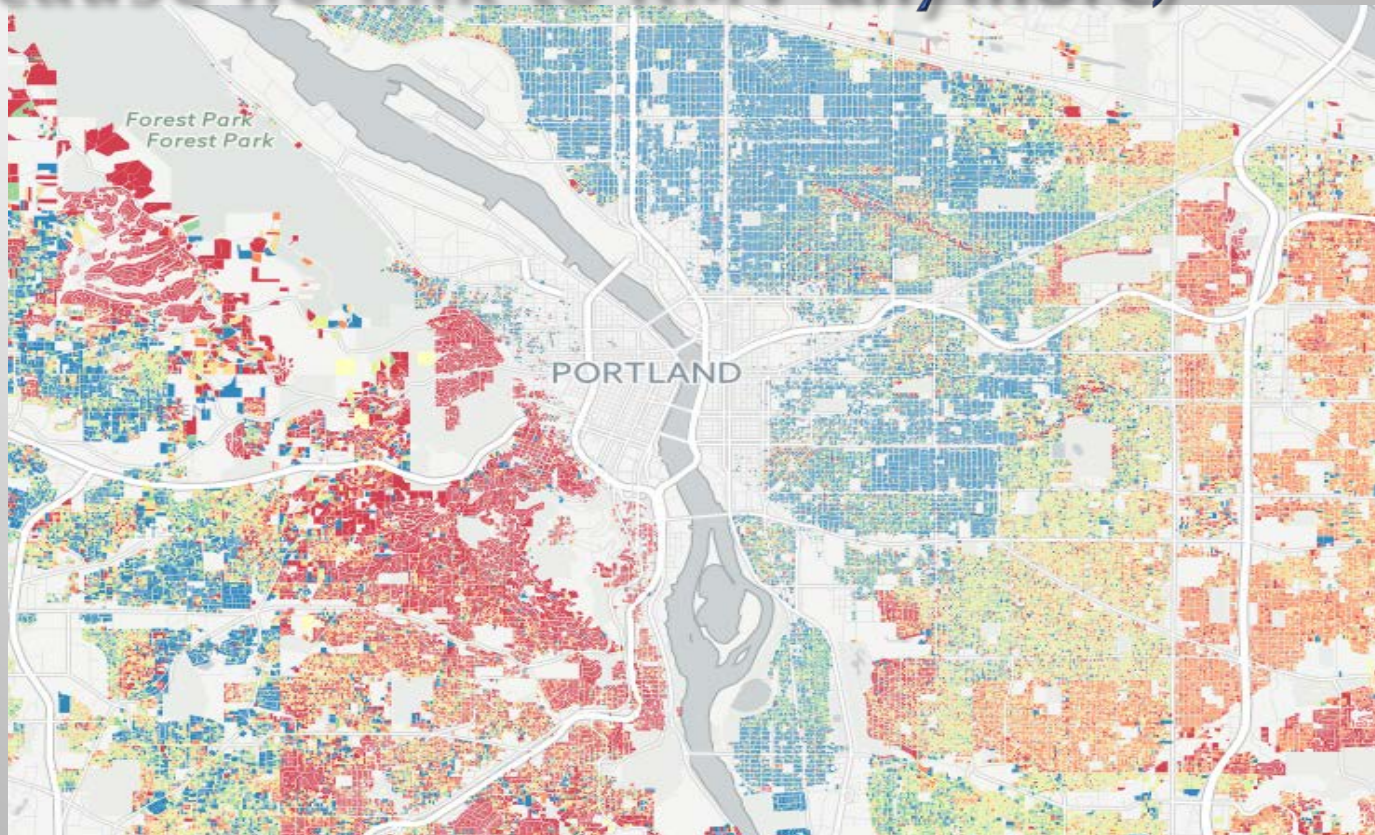
- a) **Caps Raised** (potentially with a built-in cap adjustment for inflation); or
- b) **Caps Eliminated** (go back to rates or levies set locally by voters; not one size fits all); or
- c) **Caps Replaced** with some other type of limit (percentage growth limit, hybrid, etc.)

Measure 50 (1997)

1. Created “assessed value” (AV) for property valuation with an RMV discount
 - AV was set at 10% less than 1995 RMV or use CPR for new property
 - Gap between RMV and AV has grown—now AV total is 29% less than RMV
 - Tax rate is applied to the discounted AV (but still also must calculate with RMV due to Meas. 5)
2. Capped annual growth in AV at 3%
3. Set permanent rates for all taxing districts (froze at 1997 rate calculation)

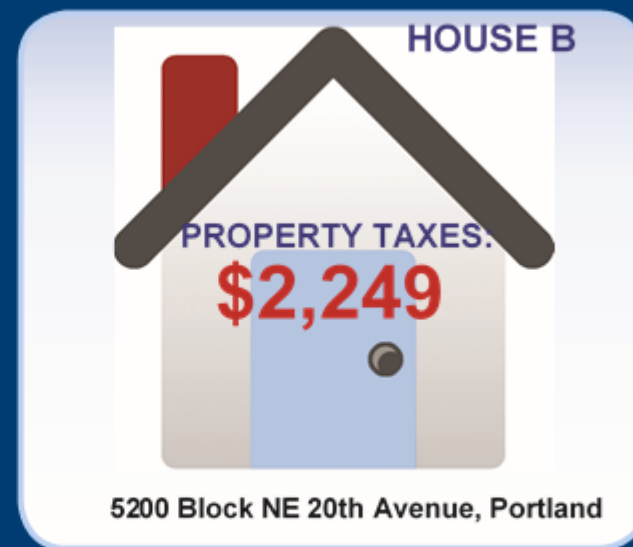


Measure 50-based property tax system creates winners and losers (because no link to RMV anymore)



Due to Measure 50, Major property tax inequities exist between homeowners

Both houses sold in June 2013 for approximately \$325,000



Difference in property taxes paid per year: **\$3,437**

Tax amounts in this example are from FY 2015-16.

RMV in 1997: \$178,300

RMV in 1997: \$98,000

Reform Needed: Address Measure 50 Valuation Problems

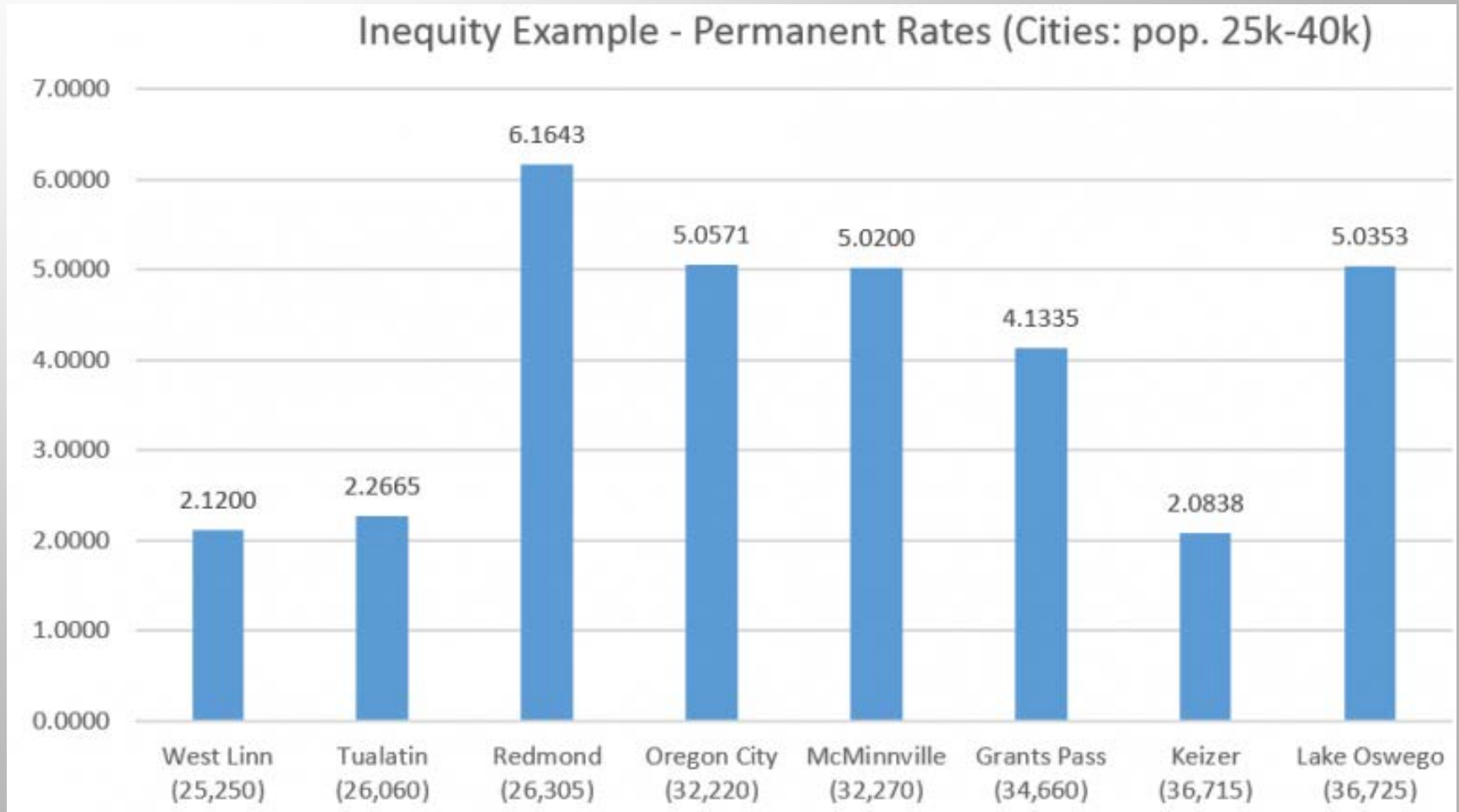


SOLUTIONS:

Address inequities in taxes between similar property by:

1. Eliminating the AV computation with the 3% growth limit and going back to computation based on RMV only. (SJR 3)
2. Providing a transition period to move existing properties to RMV as the assessment basis. (Make up only a percentage of the difference between AV and RMV each year) (Policy choice: how many years?)
3. Using an RMV average for property valuation so there is less volatility and more predictability for taxpayers and taxing districts. (Policy choice: how many years?)
4. Eliminating the county-wide change property ratio calculation for new property (instead will use RMV) (Policy choice: phase in over years too or begin immediately?)

Permanent Rate Inequity



Permanent rates range from 17 cents to \$10.62 per \$1000

$$(\text{Property Value} - \text{Exemptions}) \times \text{Tax Rate} = \text{Taxes}$$



- AV/RMV
- 3% growth limit on AV



- Homestead* Exemption
- Charitable, Business, and Public Exemptions



- Permanent Rate
- Local Option Levy



- M5 caps
- 3% disc.

Reform Needed: Address Permanent Rate Issues



SOLUTIONS:

1. Recalculate each taxing jurisdictions' permanent rate to achieve the most recent years(s) revenues. (Going from AV to RMV would otherwise generally cause significant tax increases-- reset the "black box.")
2. Give voters opportunity to reset permanent rate above recalculated rate (in a subsequent election if reform referral passes). (Remember: present permanent rates are 22 years old.)

Policy choice: what revenue impact to target when resetting permanent rates.

Reform Needed: Address Permanent Rate Issues



SOLUTIONS:

3. Impose minimum tax rates for:

a.) **County** that fails to provide minimally adequate level of services (ex. public safety, property tax assessment & collection, elections, etc.) (Policy choice: need to define minimum service levels that would trigger tax)

b) **School districts** (due to Equalization Formula, freezing permanent rate in 1997 didn't make sense) (70% have a rate >\$4; average is \$4.64) (Policy choice: need to pick a minimum permanent rate dollar amount)

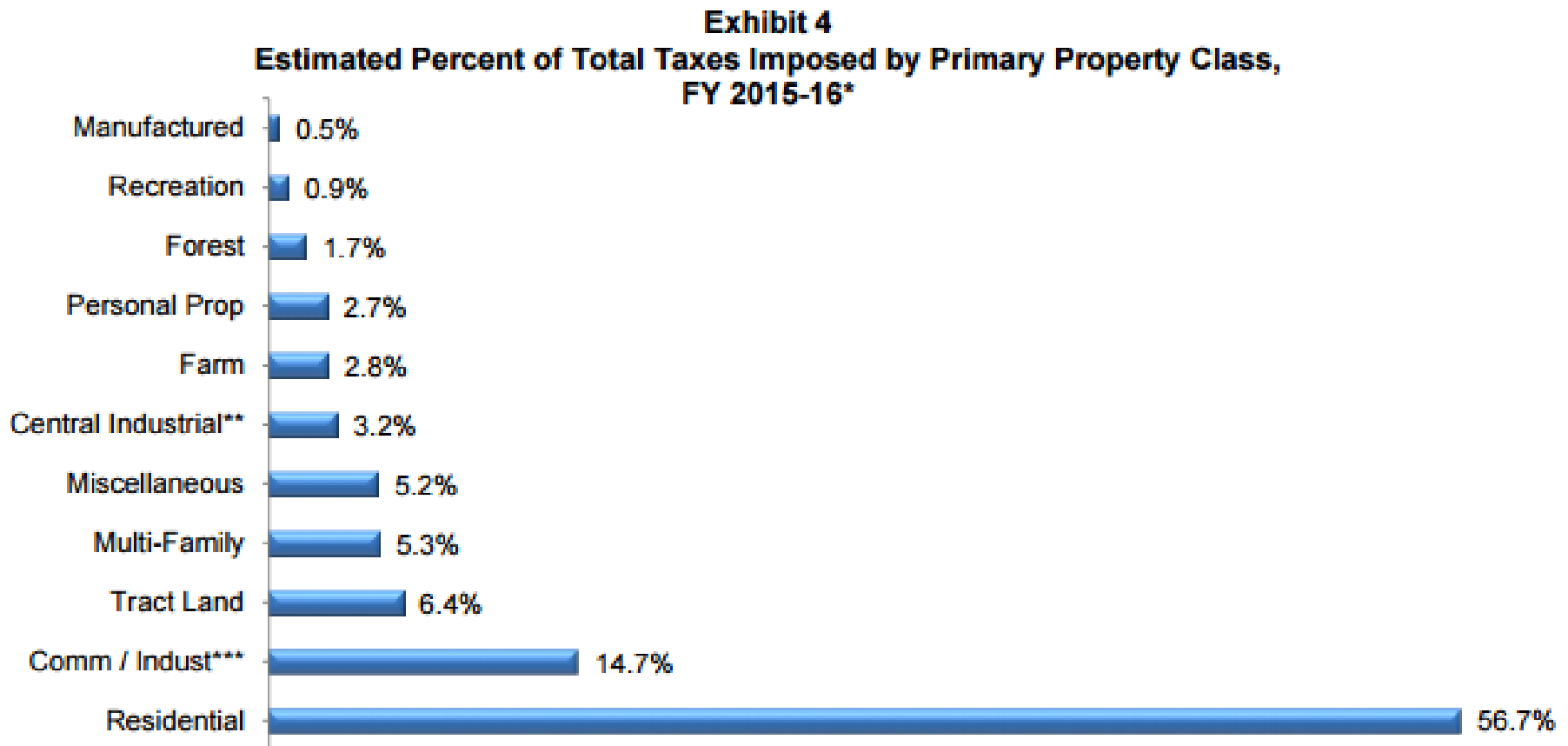
Distribution of Tax Burden for Oregon's Major Taxes

(Major Taxes Paid Directly and Indirectly Divided by Household Income)



Business Share of Property Taxes

$.5\% + 2.7\% + 3.2\% + 14.7\% = \text{about } 21.7\%$



*Estimated percentages are based on tax bill summary files reported by 30 of Oregon's 36 counties.

**Central Industrial refers to large industrial properties that are assessed by the Department of Revenue.

***Commercial and locally assessed industrial property classes were merged into a single class - ORS 308.215 (2013 edition)

Reform Needed: Adjust burden of business and residential properties



SOLUTIONS

For Primary Residence:

1. Provide a homestead exemption to reduce the tax increase caused by going from AV to RMV. (SJR 3)
 - a. Homestead exemption should be a % of RMV, with a cap and a minimum. (Policy choices: what percentage, what maximum dollar amount, what minimum amount? With an index?) (Compare SB 151-\$10,000 with annual CPI adjustment)
 - b. Homestead exemption amount should be phased-in over time along with the RMV phase-in. (Policy choice: how many years before phase in full amount?)
 - c. Homestead exemption costs should be backfilled with state revenues if exemption results in a net revenue loss to a taxing jurisdiction. (Assurance needed in Constitution.)

Reform Needed: Adjust burden of business and residential properties



SOLUTIONS

For business property:

2. Repeal 2 & 3% discounts for payment on time
3. Begin lowering/revising/phasing out some business property tax exemptions (through regular review process and focus on ROI)
4. Do not make overall permanent rate adjustments revenue-neutral, but instead make revenue raising from business (Policy choice: how much? Determine value for homestead exemption and alter permanent rate calculations to adjust this.)

Alternative to Fixing Rate System: Return to Levy System

Components of revised levy system:

- ▣ Repeal permanent rate concepts. Instead, each taxing district establishes base budget:
 - Public hearing process for each taxing district to set base (July 2016 budget as minimum base)
 - Base grows each year automatically by 3% + indexed (CPI), new property added to base, population increases may add to base
 - Voters also may increase base with temporary levy (calculated like bonds)
- ▣ Keep assessment, homestead exemption, etc. concepts same as explained earlier

Conclusion: These recommendations will restore equity and choice and meet desired property tax system principles. Time is now for reform.

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



Thank you!



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