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To: lro.exhibits@state.or.us
Subject: Testimony for Senate Bill 702
Date: Wednesday, February 20, 2019 3:05:57 PM

Dear Senate Finance Committee,

I would like to state my support for SB 702 for reasons provided by Dr. Tom Gihring.

I am copying information from Dr. Tom Gihring, Research Director of Common Ground Oregon on this matter.

Thank you for your consideration,

Respectfully,

Paul Justus

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Testimony to the Oregon Senate Committee on Finance & Revenue on behalf of SB 702: Authorizing a study of LVT

**Thomas Gihring, Research Director
Common Ground-Oregon/Washington
21 February 2019**

After more than 18 years' experience with Oregon's constitutionally-imposed property tax limitations, it is evident that the tax system has become increasingly unfair and economically unproductive. The cumulative effects of limiting the growth of property assessments under Measure 50 are both (i) continuous revenue shortfalls, and (ii) a gradual shift in burden onto lower value residential sites.

The property tax system has become so broken that a growing alliance of public interest organizations and government officials is now pressing for major state revenue and tax reforms. Economic analysts have long spoken out against the use of limited assessments as a tax restraint.

Many of our legislators representing urban and rural districts are by now familiar with Land Value Taxation in the abstract, but want to know how LVT would work in practice. SB 702 directs the Legislative Revenue Office to conduct a study of the incentive and equity effects of a land value tax on properties in Oregon's cities and towns.

The LVT method of property taxation would introduce a local option granting jurisdictions an exemption from M-5 and M-50. This would correct the assessed value distortions caused by M-50 maximum assessed values by changing MAV to real market values. Because of the restrictions of M-5 on annual tax rates taxing districts now tend to reach towards the maximum rates allowed, making rates the driver in determining what revenue can be collected. Returning to RMV will permit jurisdictions to return to the practice of setting tax rates according to the total amount of revenue to be raised.

The core element of the local option is a split-rate tax that targets land rent as the legitimate source of local government revenue. This necessary change from applying the

same rate to land and improvements will alleviate the unfairness of the current system and its economic distortions. A property tax based upon site values provides an incentive to bring land into productive use, encouraging more efficient land use.

A change to true market assessments coupled with land-based taxation is shown to be less punitive to owners who undertake substantial capital investments—who put their land to highest and best use.

Un-taxing useful economic enterprise and collecting land rent instead will conserve natural resources, eliminate real estate booms and busts, and invigorate the local economy.

The LRO study will examine certain attributes associated with LVT applied to Oregon urban communities. These qualities can be stated as follows:

- A 2-rate tax would encourage infill development as owners realize the tax benefits of building more intensively on underutilized centrally located sites. The aggregate effect is to curb urban sprawl as demand for sites at the urban fringe is reduced.
- LVT restrains speculation on land. Holding land out of productive use creates an artificial scarcity of buildable sites.
- Taxing land will help dampen residential land price inflation, the factor most responsible for driving households to the margins of the housing market. This is a cost-effective way to solve the housing affordability crisis over the long run.
- Where the ratio of building-to-land assessment is high – as in “main street” commercial corridors, most properties would see a decline in tax liability under the split rate tax system. The financial incentives of LVT support efforts to revitalize older business districts and promote compact, pedestrian-friendly streetscapes.
- A lower tax rate on improvement assessments encourages owners of rental property to repair neglected buildings. Cities have had little success in using code enforcement to compel absentee “slumlords” to make needed repairs because owners know that if they did repair their properties their tax bills would increase. Because building assessments are taxed at a low rate, making improvements to deteriorating structures can result in lower tax bills.
- Previous studies show that LVT boosts construction activity even in towns with lagging economies. The incentive effect of lowering tax rates on building assessment should have similar effects as a Rural Enterprise Zone. But unlike granting exemptions under the current property tax regime, the land-based tax system would not result in a loss of local revenue.
- A land value tax will restore fairness and efficiency to the tax system. Because the supply of land is fixed, an increase in the tax rate on land will augment revenues without distorting investment incentives. Taxing the “gifts of nature” tells owners to conserve land and to use it more wisely.

The LVT study proposed in this bill will be able to test these suppositions, revealing the benefits and needed adjustments, so that by next legislative session the legislature can get down to the business of implementing permanent property tax reforms.