

Oregon's Property Tax System: An Overview

Senate Committee on Finance & Revenue

January 30, 2023

State of Oregon

LEGISLATIVE REVENUE OFFICE





Presentation Outline

- Broad Concepts
- Select Component Details
- A Brief History
- System Variation
- Potential Changes

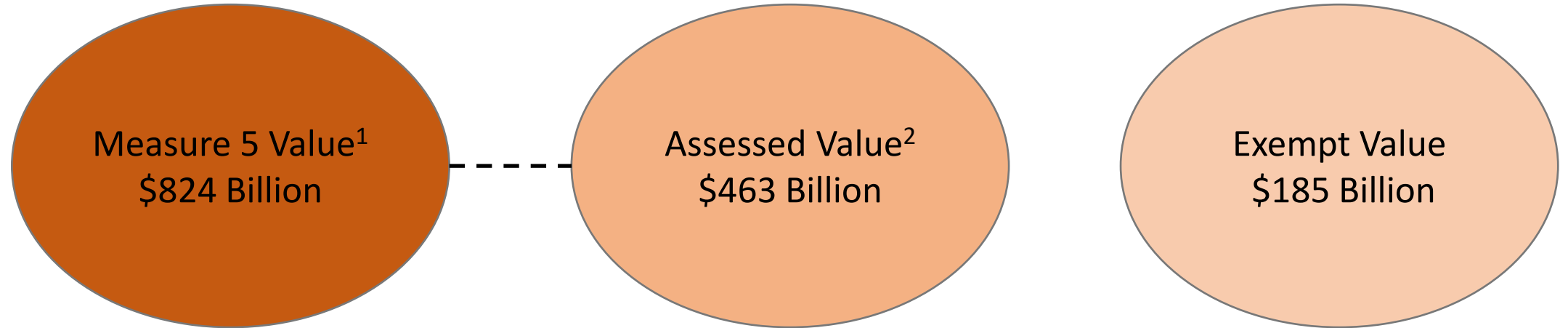
Unless otherwise noted, statistics are from the Department of Revenue's Annual Property Tax Statistics report



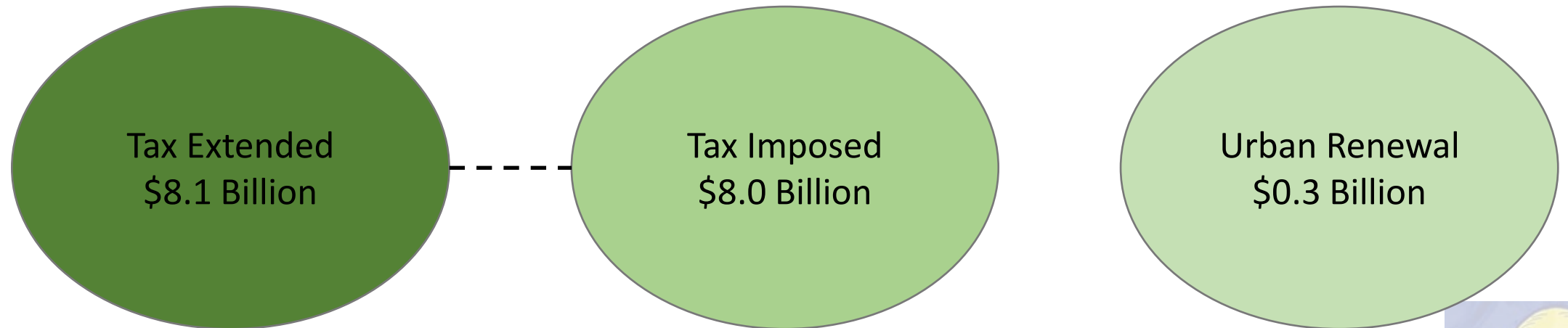


Property Tax Concepts, FY 21-22

Value:



Tax:



¹M5V vs RMV; ²TAV vs NAV





What do we mean by “property”?

			Type of Property		
			Tangible		Intangible
			Real	Personal	
Taxpayer	Household		Taxed	Exempt ¹	Exempt
	Business	Non-Farm	Taxed	Taxed ²	Taxed ³
		Farm	Taxed ⁴	Exempt	Exempt

¹ Floating homes and some manufactured structures are considered taxable personal property

² If value is above \$18,500 for FY 2020-21 (indexed to inflation)

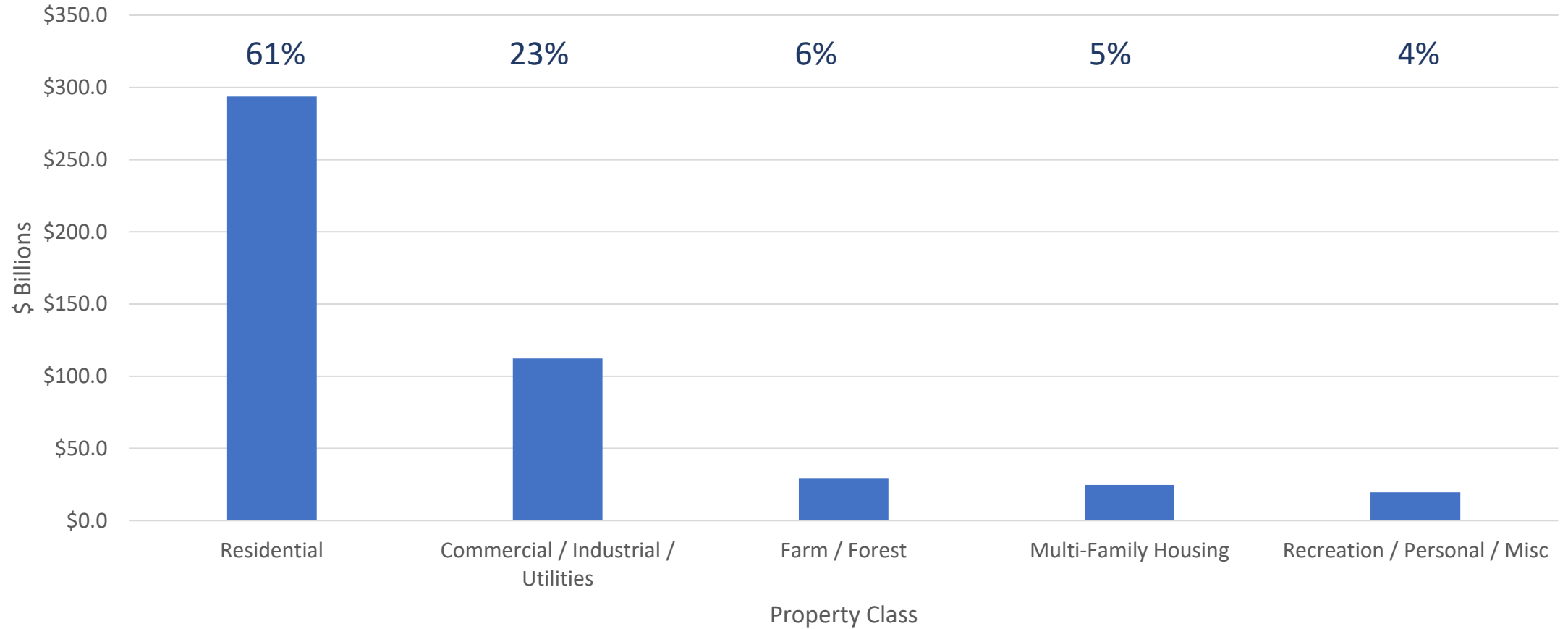
³ If Centrally Assessed

⁴ Specially Assessed





Assessed Value by Class, FY 21-22





Value Terminology

- Real Market Value (RMV)
 - Amount...paid by an informed buyer to an informed seller in a voluntary transaction
- Measure 5 Value (M5V)
 - Value used to calculate compression (often equal to RMV)
- Maximum Assessed Value
 - For 1997-98, set at 90% of 1995-96 property value
 - Grows 3% per year
 - New property = $RMV \times CPR$
 - Changed Property Ratio (CPR) is MAV/RMV (% of value that is taxable)
- Assessed Value: the smaller of MAV and RMV





Tax Terminology

- Tax Extended
 - “Gross Tax” from applying tax rates to assessed value
- Compression
 - The reduction in taxes from applying the M5 limits
- Tax Imposed
 - “Net Tax” after accounting for compression
- Taxing Districts
 - Operating (Permanent Rate); Local Option; Bonds
- Urban Renewal Agencies
 - Division of Tax (from Excess Value); Special Levies





Levy System vs Rate System

$$\text{Value} * \text{Tax Rate} = \text{Budget}$$

Levy System

- Budget process determines the “size of the pie”
- $\frac{\text{District Budget}}{\text{District Value}} = \text{Tax Rate}$
- Bonds function this way
- Exemptions don't affect total tax

Rate System

- Value change determines the “size of the pie”
- $\text{District Value} * \text{Tax Rate} = \text{District Budget}$
- Permanent Rates are fixed
- Exemptions reduce total tax





Levy System & Bonds

- District determines budget
 - Assessor determines property value
 - Budget / Value = Tax Rate
 - Tax on a \$300,000 house
- \$15 Million
 - \$30,000 Million
 - $\$15/\$30,000 = .0005$ (\$0.50 per \$1,000)
 - $\$0.50 * \$300 = \$150$

\$500 Million Exemption

- District determines budget
 - Assessor determines property value
 - Budget / Value = Tax Rate
 - Tax on a \$300,000 house
- \$15 Million
 - \$29,500 Million
 - $\$15/\$29,500 = .00051$ (\$0.51 per \$1,000)
 - $\$0.68 * \$300 = \$153$





Rate (Current) System

- District has a fixed tax rate
- Assessor determines district value
- Value * Tax Rate = Budget
- Tax for a \$300,000 house
- \$0.50 per \$1,000 of AV
- \$30,000 Million
- \$30,000M * \$0.50 = \$15 Million
- \$0.50 * \$300 = \$150

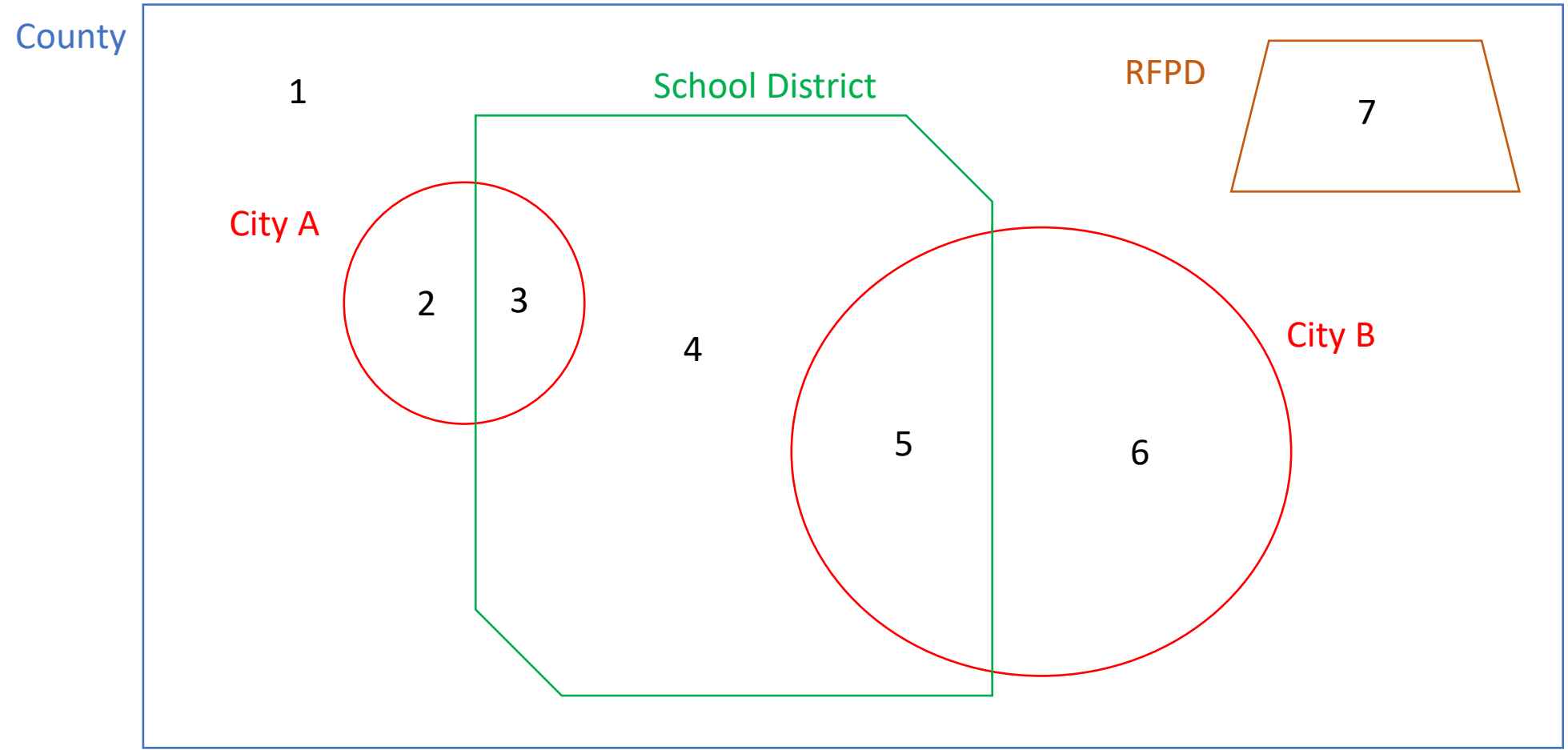
\$500 Million Exemption

- District has a fixed tax rate
- Assessor determines district value
- Value * Tax Rate = Budget
- Tax for a \$300,000 house
- \$0.50 per \$1,000 of AV
- \$29,500 Million
- \$29,500M * \$0.50 = \$14.75 Million
- \$0.50 * \$300 = \$150





Simplified Code Areas



District Tax Rates	
County:	\$1.50
City A:	\$1.00
City B:	\$2.00
School:	\$3.00
RFPD:	\$1.25

Code Area Tax rates	
1:	\$1.50
2:	\$2.50
3:	\$5.50
4:	\$4.50
5:	\$6.50
6:	\$3.50
7:	\$2.75





Select Concept Details

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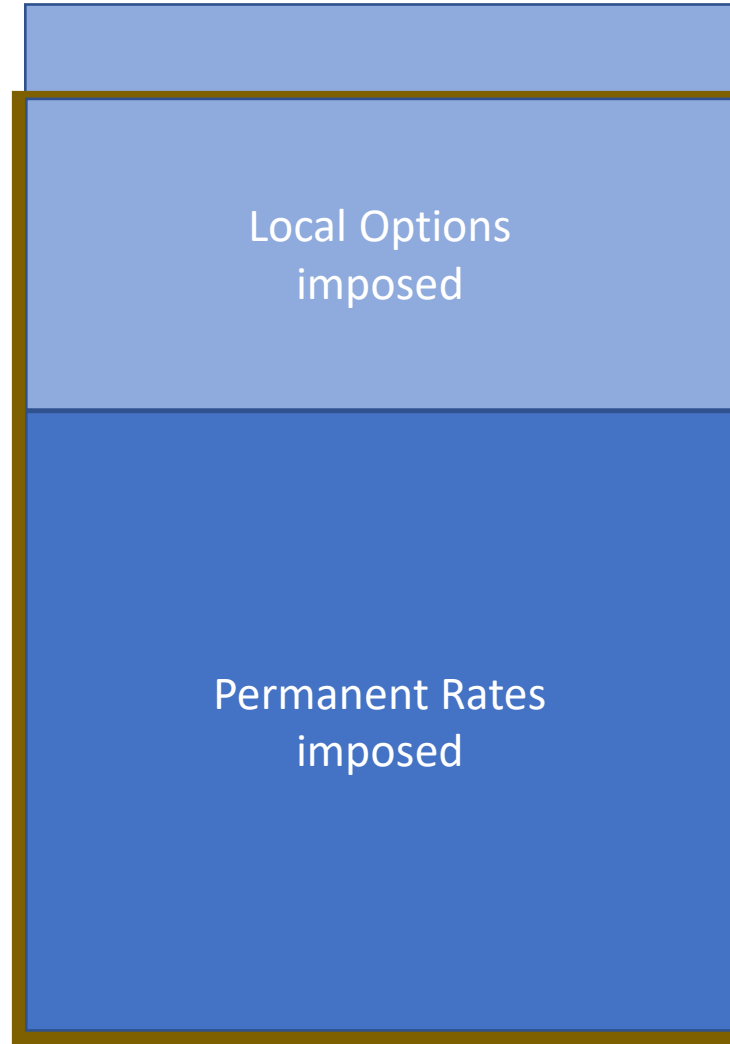
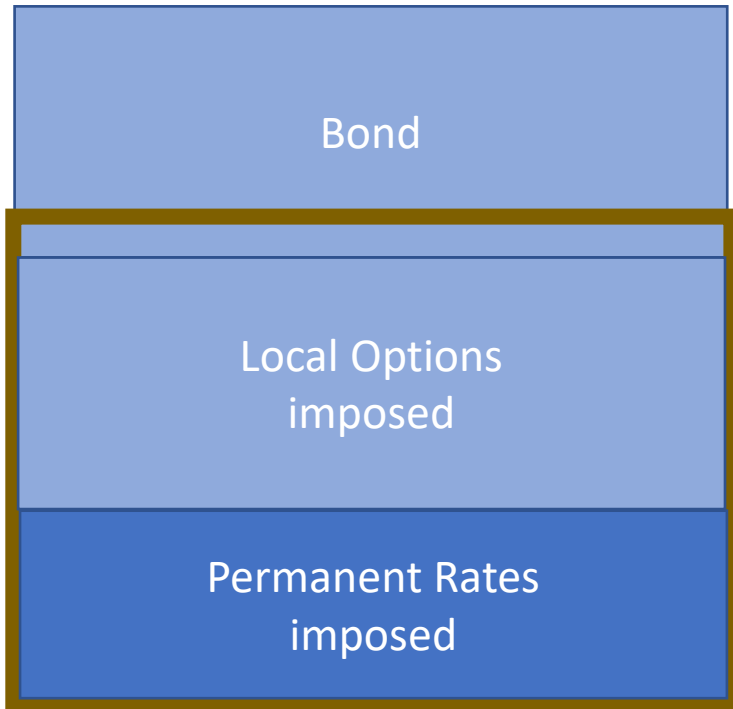
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M5: Property Tax Compression

\$5 Schools Limit: No Compression
(K-12, ESD, Comm Coll)



\$10 General Govt Limit: Compression

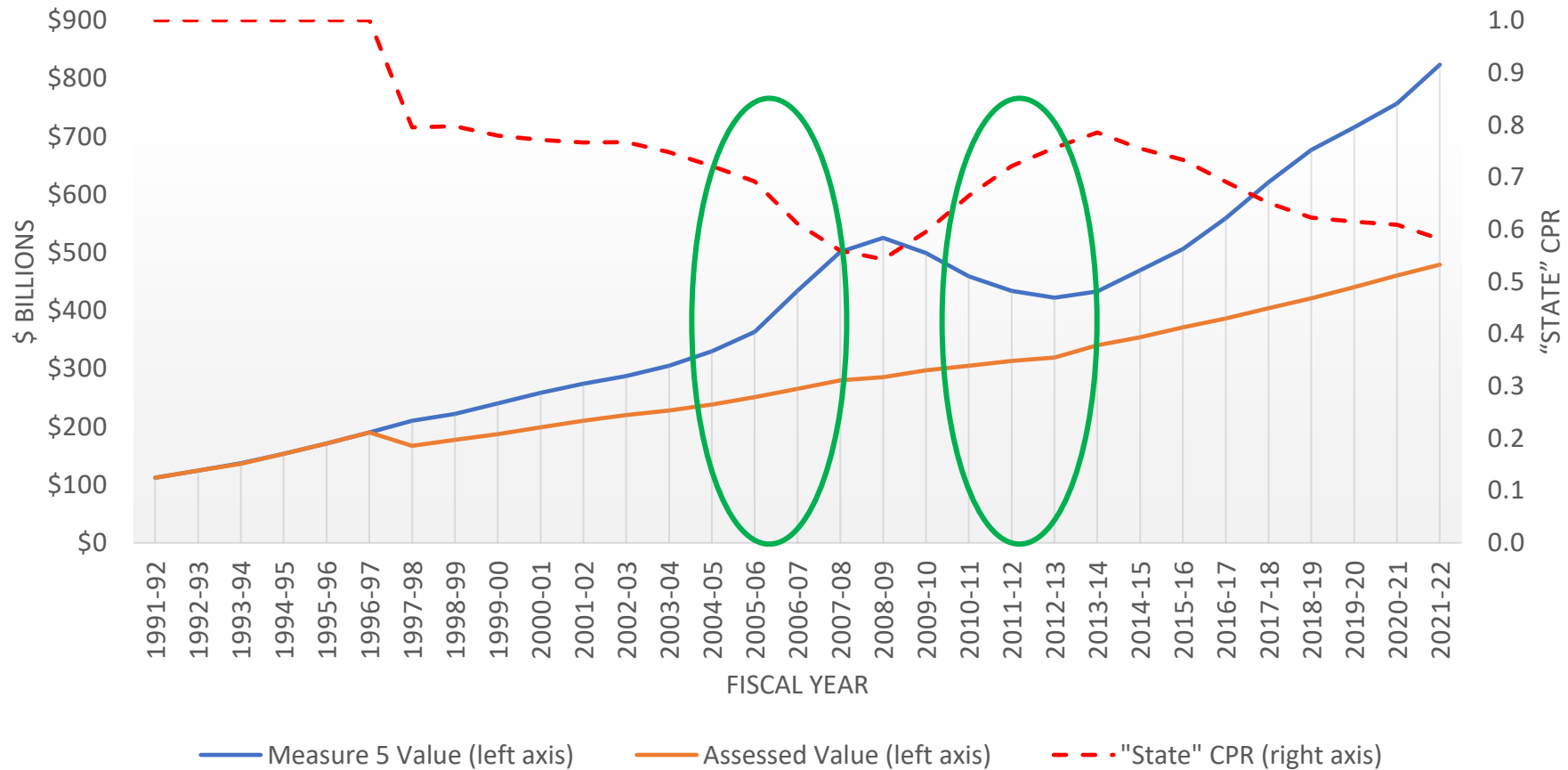
- County
- City
- Library
- Park
- Etc.





M50: Changed Property Ratio (CPR)

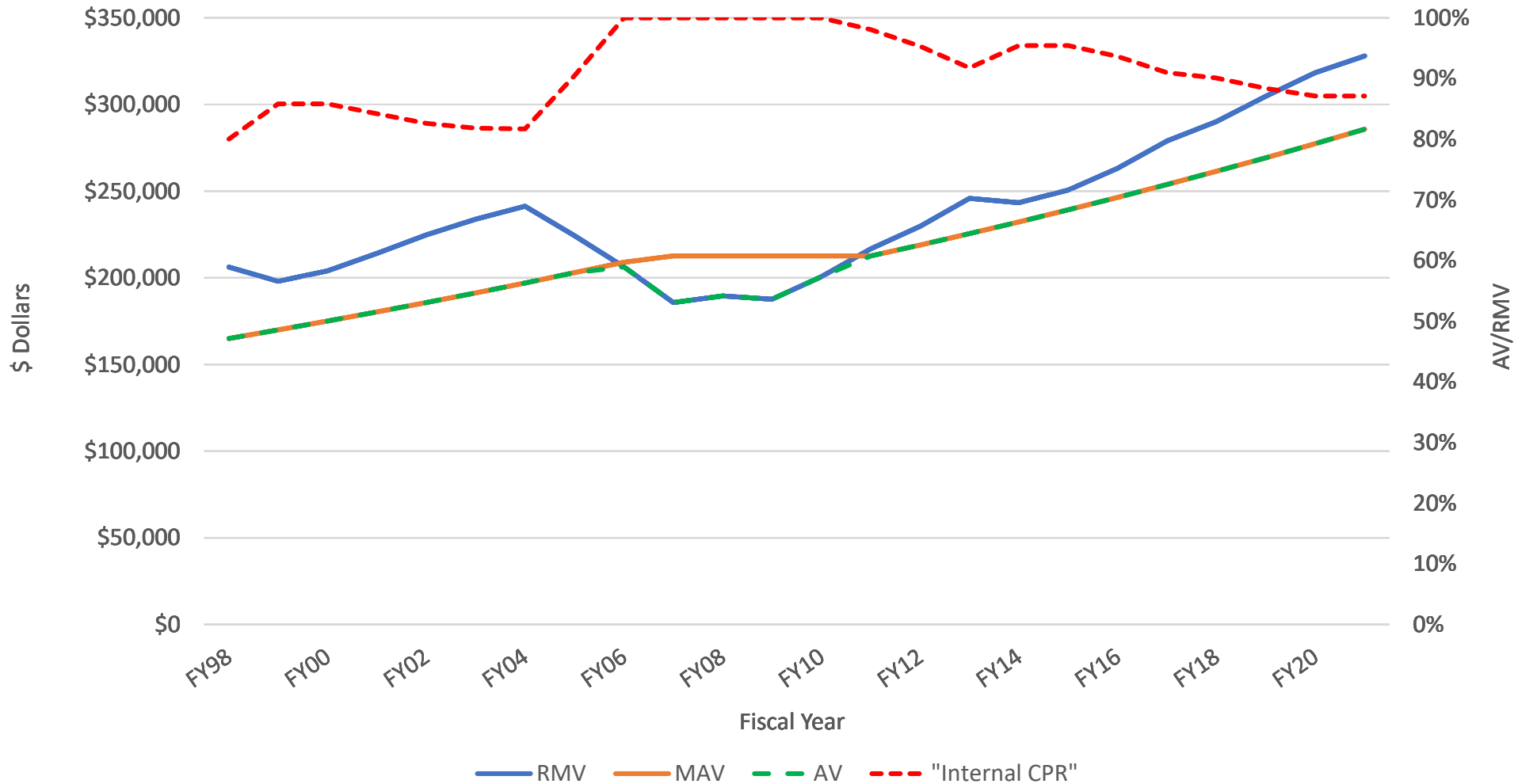
$$\text{CPR} = \frac{\text{MAV}}{\text{RMV}}$$





MAV Example

- $MAV_y = \text{Max}(1.03 * AV_{y-1}, MAV_{y-1})$
- $AV_y = \text{Min}(RMV_y, MAV_y)$





Recalculating MAV

Oregon Constitution, Article 11, Section 11(1)(c)

- (A) The property is new property or new improvements to property;
- (B) The property is partitioned or subdivided;
- (C) The property is rezoned and used consistently with the rezoning;
- (D) The property is first taken into account as omitted property;
- (E) The property becomes disqualified from exemption, partial exemption or special assessment; or
- (F) A lot line adjustment is made with respect to the property, except that the total assessed value of all property affected by a lot line adjustment shall not exceed the total maximum assessed value of the affected property under paragraph (a) or (b) of this subsection.





A Brief History

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Measure 5 (1990)

- A 1.5% limit consists of two parts
 - 1% limit for general government (county, city, special districts)
 - 0.5% limit for education (K-12, community colleges, ESDs)
 - Excludes bonds
- 5-year phase-in for schools
 - 1991-92 to 1995-96
- State would make up education revenue loss

5

STATE CONSTITUTIONAL LIMIT ON PROPERTY TAXES FOR SCHOOLS, GOVERNMENT OPERATIONS

QUESTION—Shall constitution set limits on property taxes, and dedicate them to fund public schools and non-school government operations?

YES

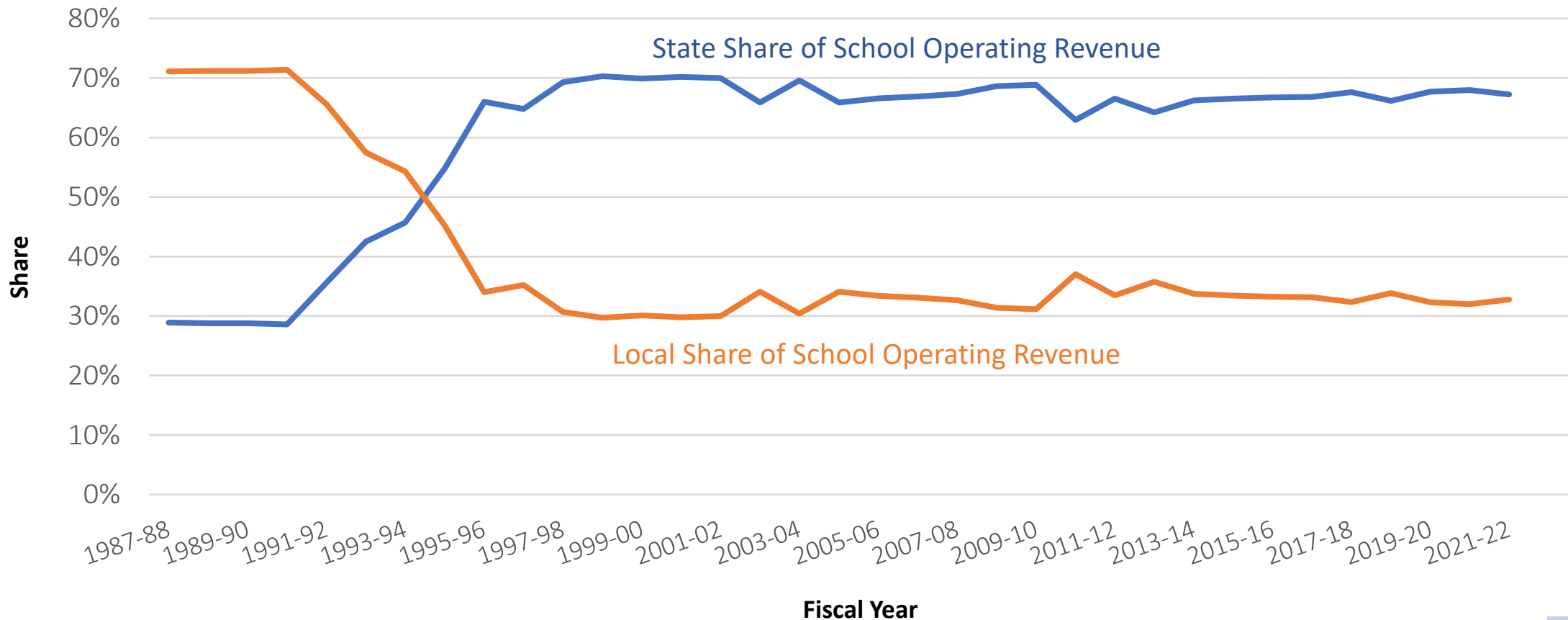
NO

SUMMARY—Amends constitution. Limits 1991-1992 property taxes for public schools to \$15, and property taxes for non-school government operations to \$10 per \$1000 of market value. Schools limit gradually decreases to \$5 per \$1000 in 1995-1996 and after. Government operations limit remains same. Limits do not apply to government assessments, service charges, taxes to pay certain government bonds. Assessments, service charges shall not exceed cost of making improvements, providing services. General Fund to replace, until 1996, school funds lost due to school limits.

ESTIMATE OF FINANCIAL EFFECT—



State Responsibility for Schools





November 1996: Measure 47 May 1997: Measure 50

47 AMENDS CONSTITUTION: REDUCES AND LIMITS PROPERTY TAXES; LIMITS LOCAL REVENUES, REPLACEMENT FEES

RESULT OF "YES" VOTE: "Yes" vote reduces current property taxes; limits future increases; limits local revenues and replacement fees.

RESULT OF "NO" VOTE: "No" vote retains the existing property tax system with current limitations on property tax rates.

SUMMARY: Amends constitution. Limits 1997-98 property taxes to lesser of: 1995-96 tax minus 10 percent, or 1994-95 tax. Limits future annual property tax increases to 3 percent, with exceptions. Limits revenue available for schools, other local services funded by property taxes. Local governments' lost revenue may be replaced only with state income tax, unless voters approve replacement fees or charges. Provides no system for spreading revenue cuts among local governments. Restricts new bonds. Tax levy approvals in certain elections require 50 percent voter participation. Other changes.

50 AMENDS CONSTITUTION: LIMITS ASSESSED VALUE OF PROPERTY FOR TAX PURPOSES; LIMITS PROPERTY TAX RATES

RESULT OF "YES" VOTE: A "yes" vote adopts amendment limiting property taxes through restrictions on assessed value of property and property tax rates.

RESULT OF "NO" VOTE: A "no" vote rejects amendment and retains existing constitutional provisions.

SUMMARY: This measure changes current provisions relating to property taxation. The measure establishes the maximum assessed value of property in this state for the 1997-1998 tax year as 90 percent of the property's real market value in the 1995-1996 tax year and then limits any increase in maximum assessed value for tax years following 1997-1998 to three percent per year. For the 1997-1998 tax year, the measure generally reduces the total of all taxing district levies in the state by 17 percent. This reduction will reflect Measure 47 cuts by basing the cuts on the lesser of the 1995-1996 tax minus 10 percent or the 1994-1995 tax, adjusted for voter-approved levies. For subsequent tax years, the measure permanently fixes the tax rates of each taxing district, based on each district's 1997-1998 levy. The measure permits assessed values to be adjusted for new property or property improvements and certain other events, but limits the amount of the adjustment. The measure permits certain local option taxes, if approved by voters. The measure retains the existing total property tax rate for all property taxes, including local option taxes but excluding taxes for bonds, at \$5 per \$1,000 of value for schools and \$10 per \$1,000 of value for nonschool government. The measure repeals obsolete constitutional provisions.





Tax Limitation Implications

Measure 5: Compression

- A maximum tax rate
- Taxing Districts compete for resources
- Declines in RMV can reduce tax revenue
- Exemptions may reduce revenue to taxing districts

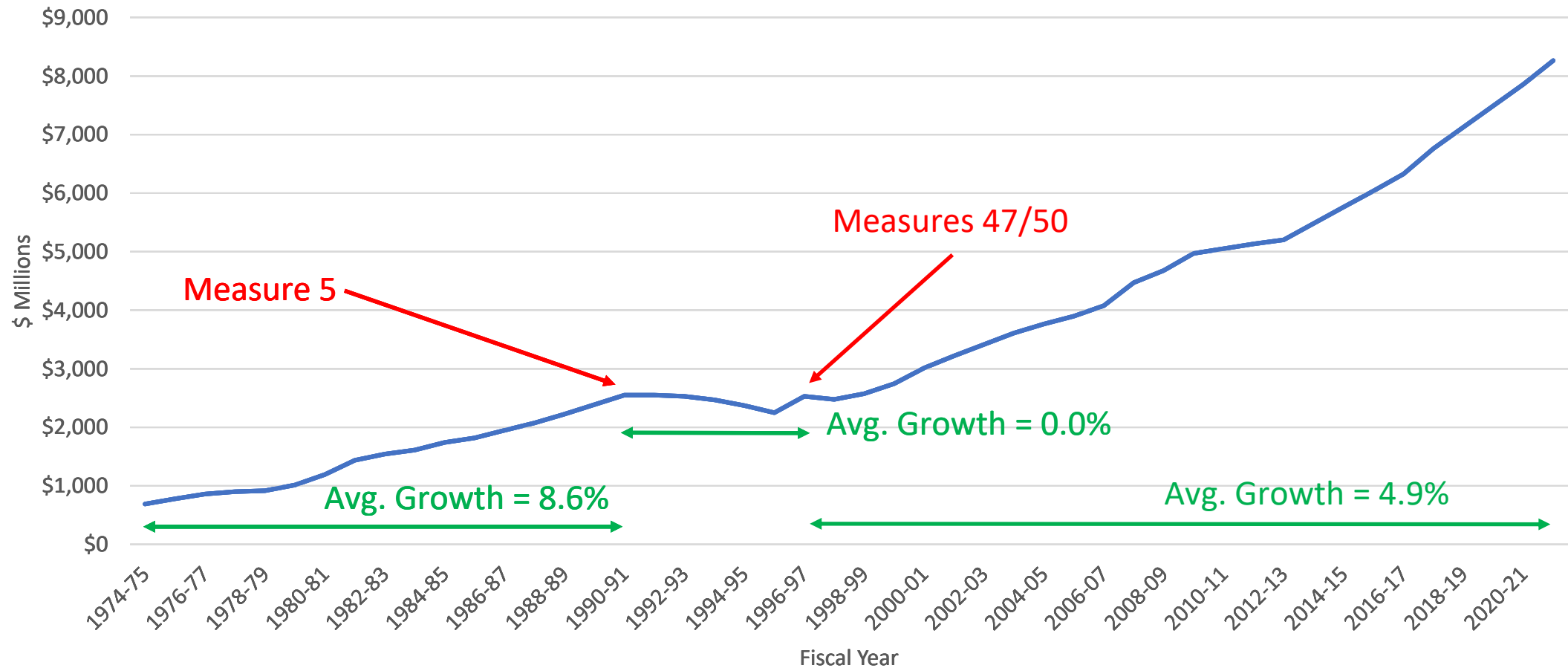
Measure 50

- Expands M5 Compression impacts
- Inflation above 3% is likely problematic
- Inequities
 - “lock-in” of 1995-96 roll values
 - CPR differences over time





Property Tax Liability





System Variation

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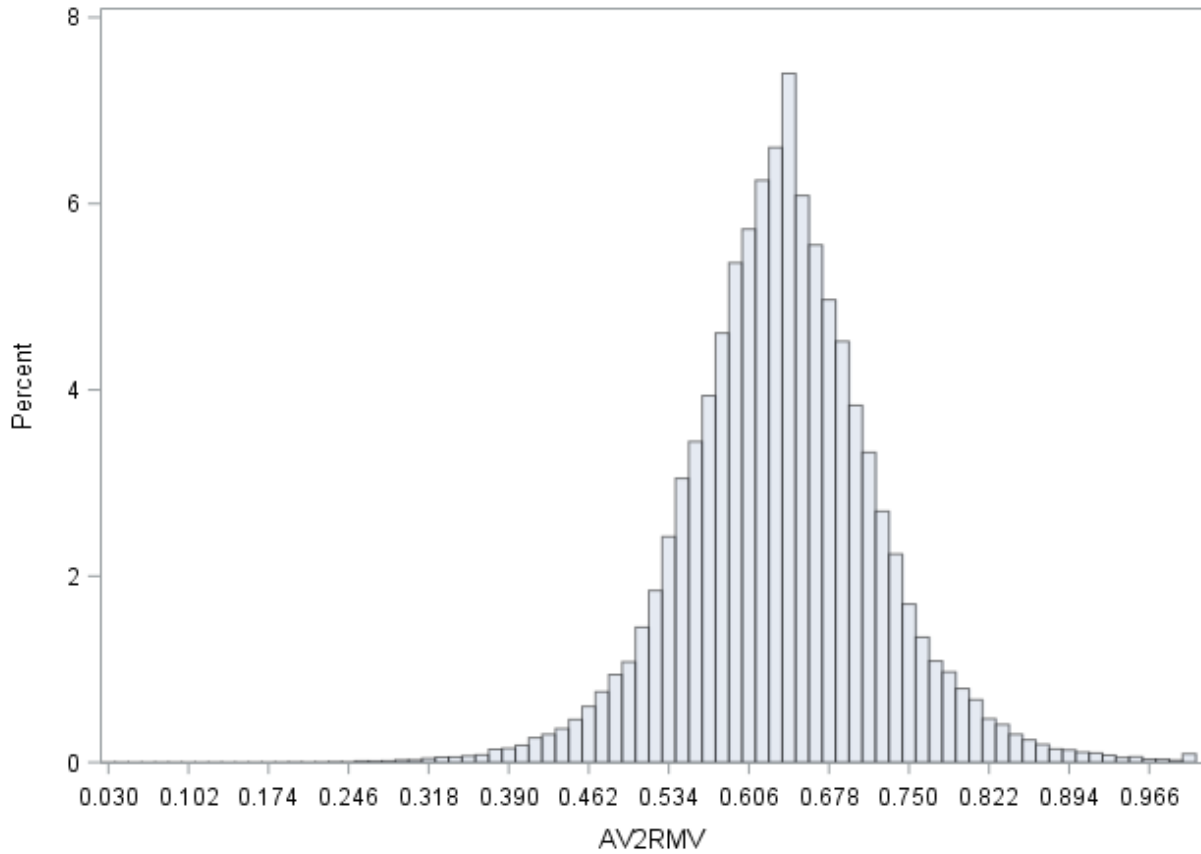
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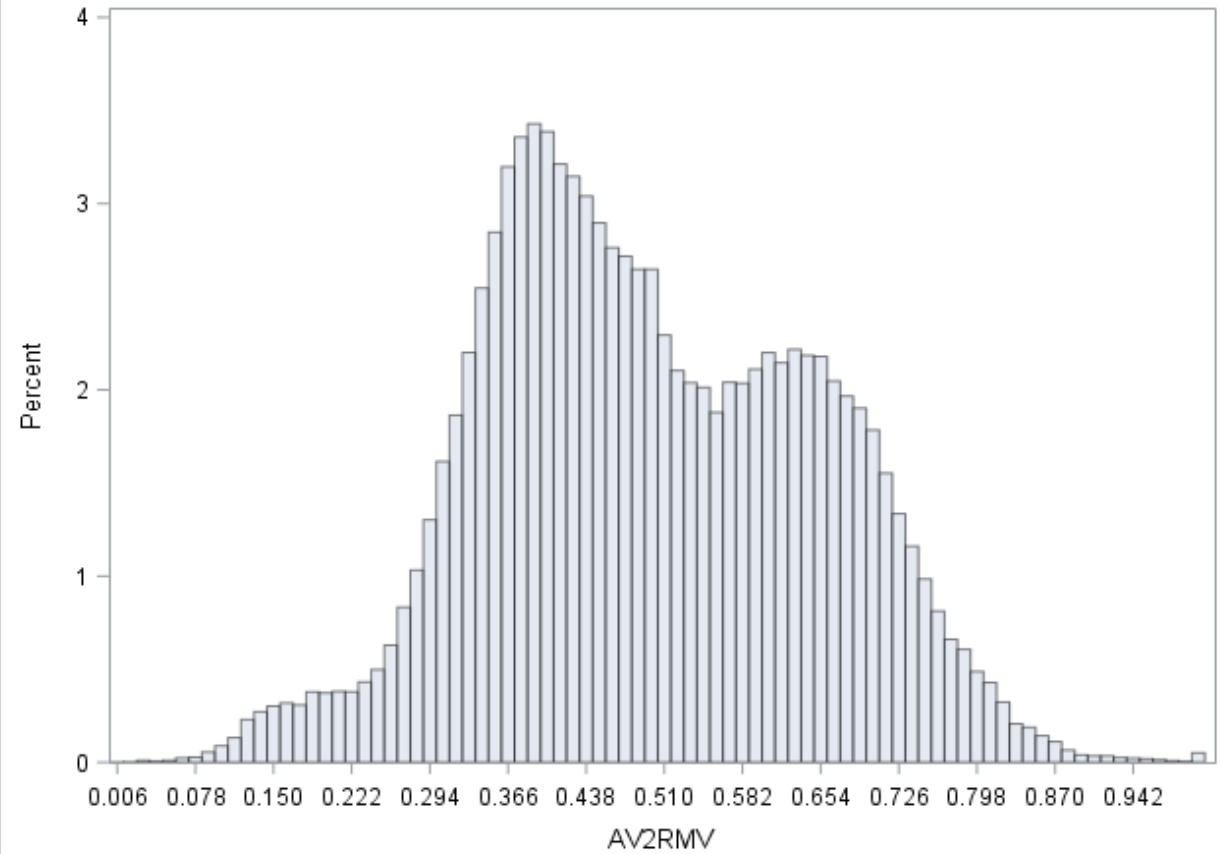
Uniformity vs Variance

Distribution of AV2RMV



2017-18 Washington County

Distribution of AV2RMV



2017-18 Multnomah County

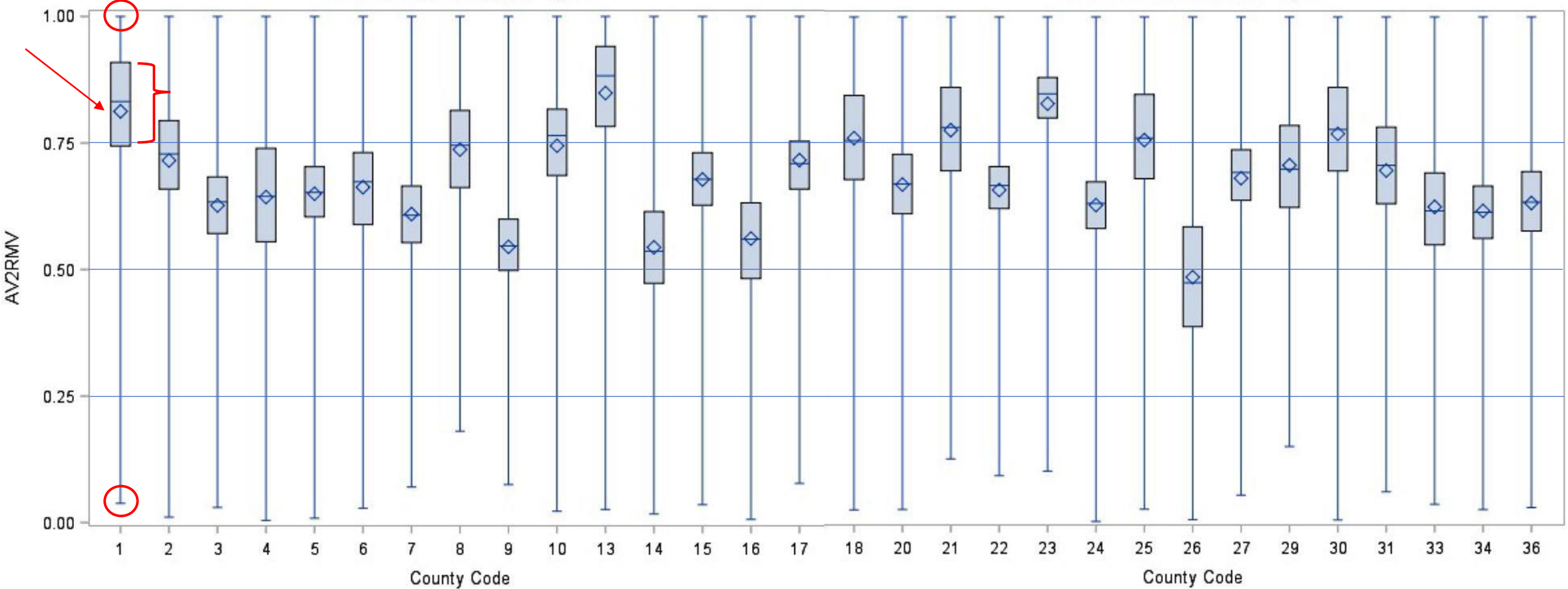




Residential Property (2019-20, 30 Counties)

Distribution of AV2RMV by CO

Distribution of AV2RMV by CO



- | | | | | |
|-------------|---------------|--------------|--------------|---------------|
| 1 BAKER | 7 CROOK | 15 JACKSON | 22 LINN | 29 TILLAMOOK |
| 2 BENTON | 8 CURRY | 16 JEFFERSON | 23 MALHEUR | 30 UMATILLA |
| 3 CLACKAMAS | 9 DESCHUTES | 17 JOSEPHINE | 24 MARION | 31 UNION |
| 4 CLATSOP | 10 DOUGLAS | 18 KLAMATH | 25 MORROW | 33 WASCO |
| 5 COLUMBIA | 13 HARNEY | 20 LANE | 26 MULTNOMAH | 34 WASHINGTON |
| 6 COOS | 14 HOOD RIVER | 21 LINCOLN | 27 POLK | 36 YAMHILL |

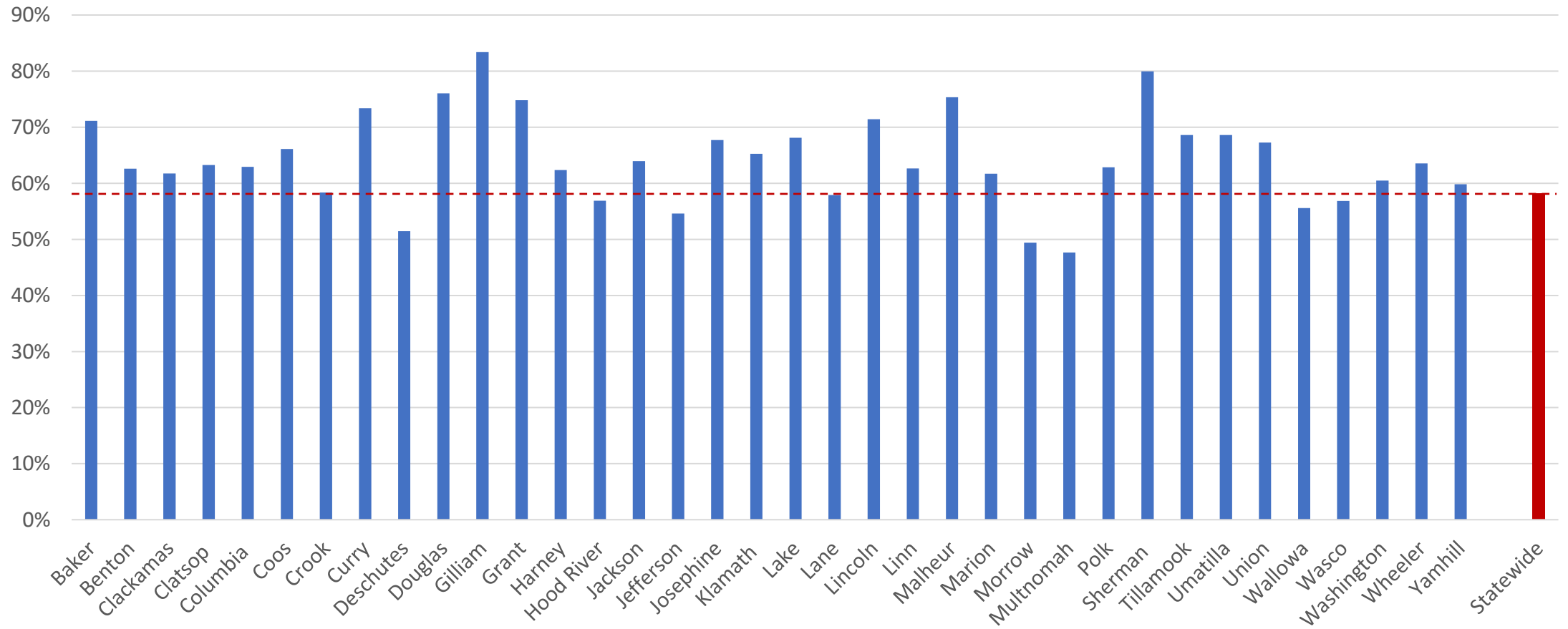
Median - solid horizontal line in box
 Mean - diamond in box
 Max - upper horizontal line
 Min - lower horizontal line
 Box - interquartile range





AV/M5V, by County

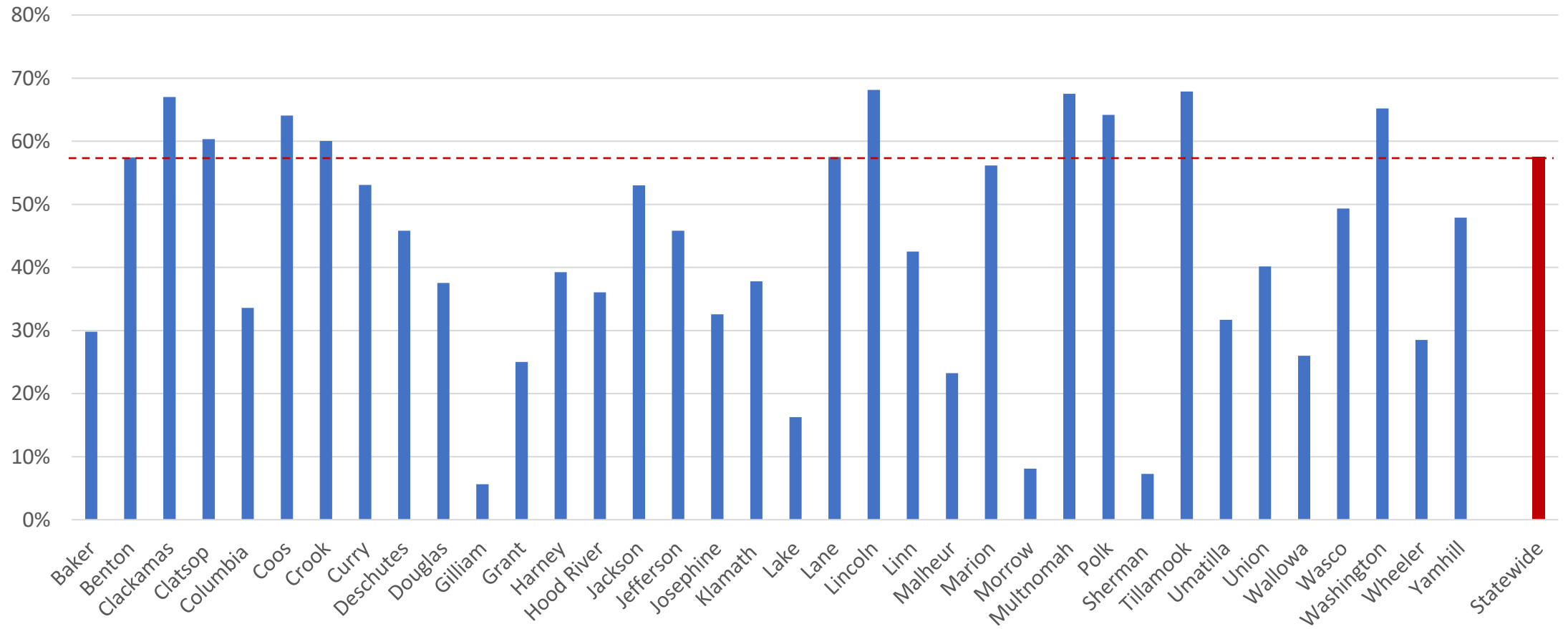
2021-22





Residential Share of AV, by County

2021-22



Property Tax Changes

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2023 Bills and Potential Action

- Administration
 - Tax roll corrections (HB 2086)
 - Recalculating maximum assessed values (SB 154, HB 2084)
 - Assessment and Taxation funding (HB 2088)
- Exemptions
 - 12 (or so) policies sunseting in the 23-25 biennium (various bills)
 - Establish a review process





Potential Changes

- Eliminate the MAV freeze when $AV=RMV$
- Redefine 'property class' or 'area' for CPR calculation
- Changing the 3% discount
- Additional taxes upon disqualification from exemption or special assessment
- Move compression from individual property to code area
- Minor Construction value caps of \$10k / \$25k



For More Information

- Legislative Revenue Office
- ~~900 Court St. NE, Room 160~~
- 255 Capitol St NE, 5th Floor
 - Public Services Building
- Salem, OR 97301
- 503-986-1266
- <https://www.oregonlegislature.gov/lro>

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