House Bill 4141

Property Tax Delinquent Interest Rate Reduction

Background

A significant number of counties are not able to fund their assessment and taxation functions without assistance. The mechanism to assist them is the County Assessment Function Funding Assistance Account (CAFFA). Per ORS 294.187, CAFFA revenue comes from recording fees and from a portion of delinquent property tax interest. ORS 294.184 allows the department to retain 10 percent of CAFFA for administrative costs and for the industrial appraisal and central assessment functions the department provides counties.

HB 4141 would reduce the property tax delinquent interest rate from one and one-third percent per month to one and one-third percent per year.

Implementation

The department recommends making the new rate effective no sooner than July 1, 2025. We will need time to update the property tax statements and to update training materials for tax collectors who will have to track three different interest rates: the rate effective prior to 2021 HB 3143, the rate created by HB 3143, and the new rates created by HB 4141.

Department Fiscal Impact of Reducing Delinquent Interest Rate

Because one and one-third percent annual interest is below market interest rates, it is difficult to predict the impact on collections and to quantify the reduction in CAFFA. In recent years the department's share of CAFFA attributable to delinquent interest has hovered between $1 million and $2 million annually.

The $13 million threshold in ORS 311.508(2), that directs the disposition of delinquent interest, could result in CAFFA taking all delinquent interest from local governments for the year. The overall contribution of delinquent interest to CAFFA could still be reduced by approximately two thirds, with the department's 10 percent share reduced accordingly. Using these extremely rough estimates, there may be a fiscal impact to the department of between $2 million and $3 million per biennium.

-1 Amendment

It is difficult to estimate how much less impact the -1 amendment will have on DOR's budget versus the base bill because of fluctuating rates.

Because banks may use different prime rates, DOR recommends using a more consistent rate such as the U.S. federal funds rate, plus four and one-third percent.

In any case, the rate can change as often as eight times per year. For ease of administration, DOR recommends setting the property tax delinquent interest rate only one time per year, perhaps on July 1 of each year.

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