House Bill 3518
County A&T Funding

Presentation to the House Committee on Revenue

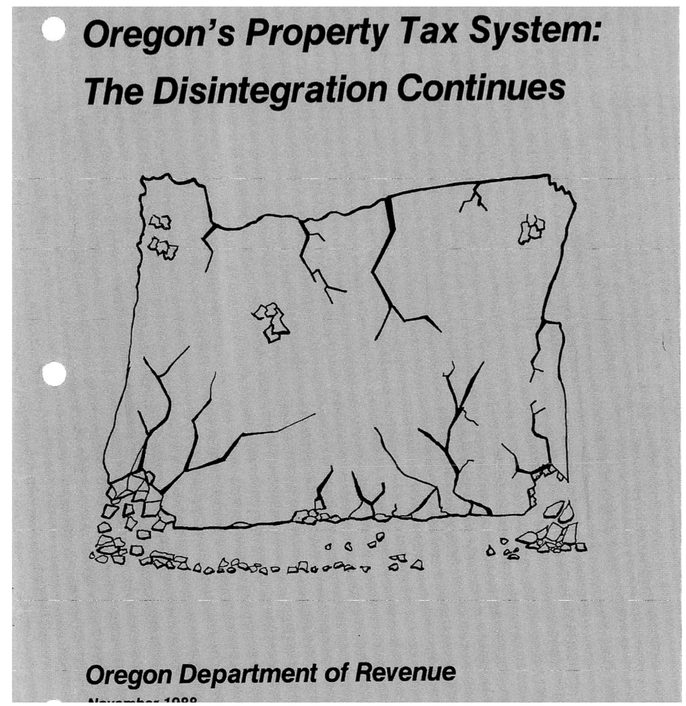
March 11, 2025

Oregon State Association of County Assessors

Oregon Association of County Tax Collectors

County Assessment Function Funding Assistance (CAFFA) Quick Facts

- CAFFA established in 1989 (House Bill 2338) by the Oregon Legislature, citing concerns over the "disintegration of Oregon's property tax system."
- In passing HB 2338, the Legislature recognized a shared responsibility for statewide uniformity and accuracy in Assessment and Taxation.
- CAFFA provided county officials with new sources of funding: delinquent interest from late property tax payments and document recording fees.
- CAFFA was modified in 1997 (HB 2049) and most recently in 1999 (HB 2139).

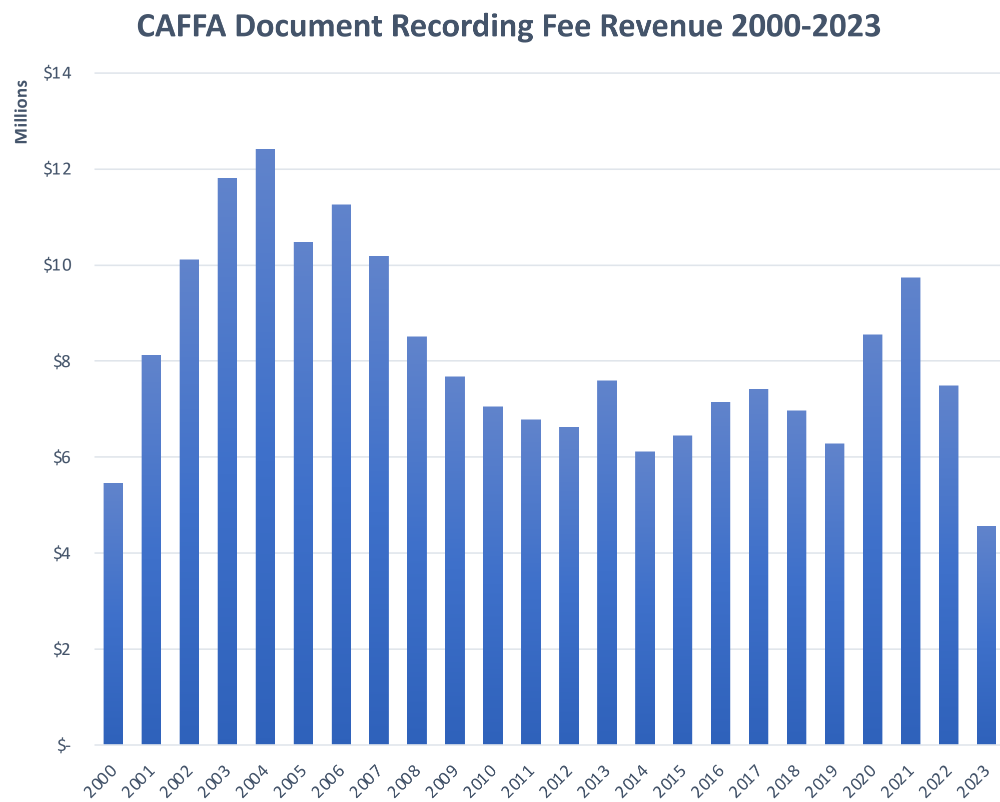


CAFFA Revenue Sources

- **$9 Document Recording Fee:** When a person records a title or deed they pay a document recording fee, $9 of which is dedicated to A&T funding.
- **~$13m Delinquent Interest Retention:** Late property taxpayers accrue interest at 1.33% per month. 25% of that is held back from all taxing districts (Tier 1) and another 25% is held back from all taxing districts that aren't county or K-12 school districts (Tier 2). Both sources of revenue are collected at the county level, sent to the DOR – which retains 10% – and is then redistributed to County A&T based on demonstrated need.
- **State General Fund:** In 1999, the Legislature added $5m per biennium. This was discontinued by the 2009 Legislature during the mortgage crisis.

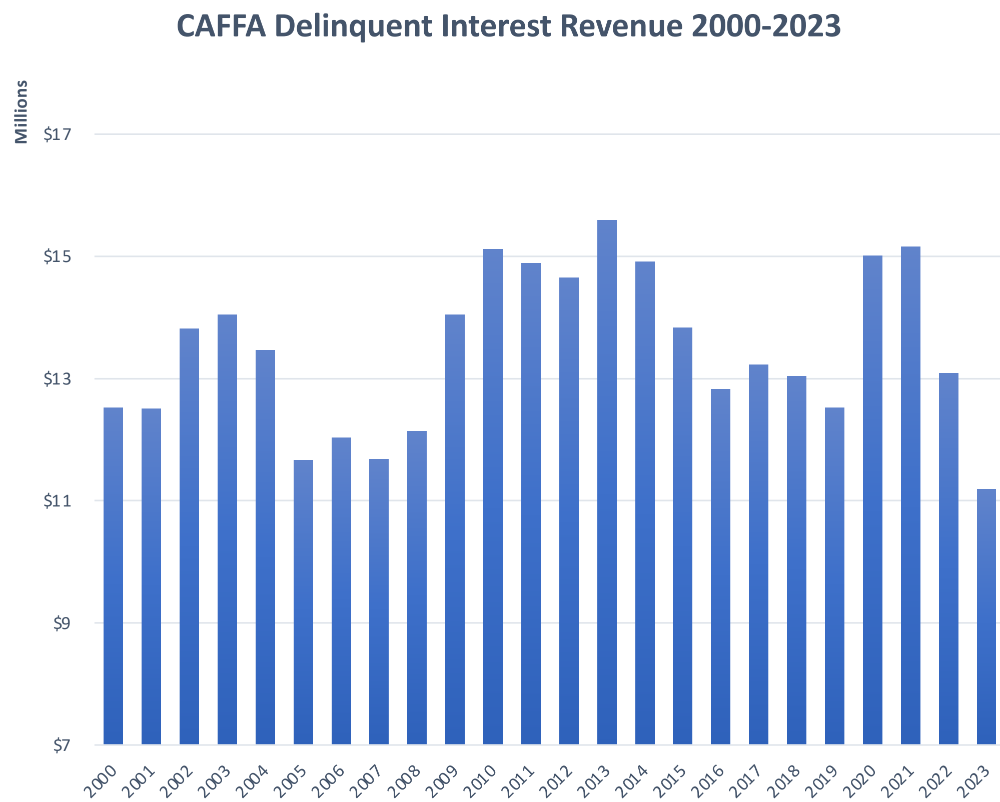
Document Recording Fee Deposits to Counties

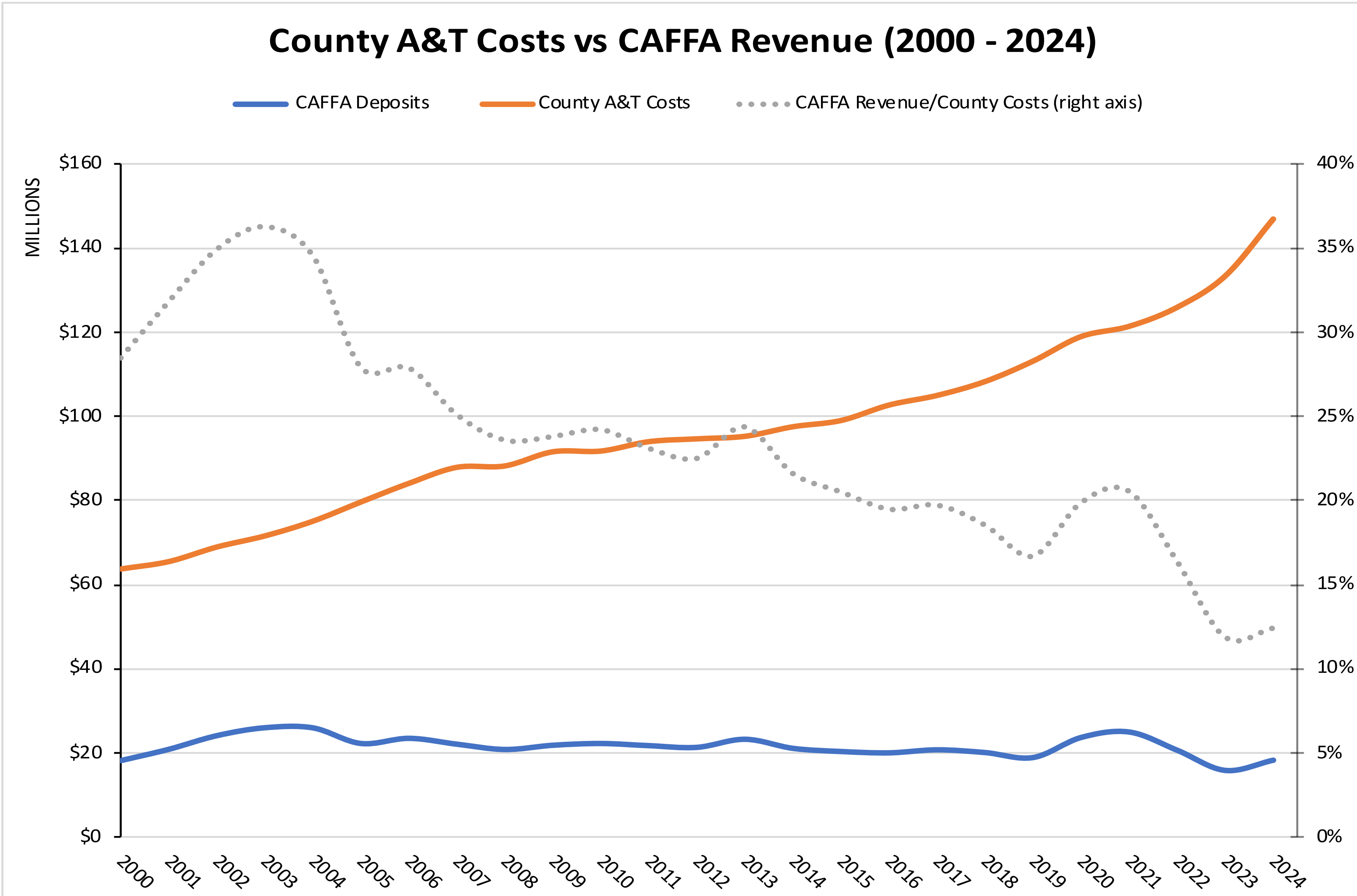
- Not indexed to growth
- Related to the level of activity in the real estate and the mortgage finance markets.



Delinquent Interest Deposits to Counties

- ➢ Not indexed to growth
- ➢ County A&T benefits when taxpayers pay late(!)





County A&T Costs vs CAFFA Revenue (2000 - 2024)
CAFFA Deposits
County A&T Costs
CAFFA Revenue/County Costs (right axis)
MILLIONS
$160
$140
$120
$100
$80
$60
$40
$20
$0
40%
35%
30%
25%
20%
15%
10%
5%
0%
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2021
2022
2023
2024

Past to Present

- Oregon's property tax system was faltering pre-CAFFA when supported only by counties.
- CAFFA stabilized the system by establishing revenue support from taxing districts and the public, each of whom rely on County A&T to administer the property tax system and manage the state's property tax asset.
- CAFFA not indexed to growth.
- Most County A&T offices are unable to meet their full array of statutory duties.
- Uniformity and accuracy are suffering as is defense of the asset.
- Taxing districts losing many tens of millions in revenue per year.
- Property tax system is once again in a state of active disintegration.

The Future

- CAFFA not indexed to growth.
- Revenue is flat (overall) while needs grow due to inflation, cost increases, growth in tax accounts, growth in taxing districts, and new exemption programs.
- The gap in CAFFA revenue vs needs will continue to grow over time.
- Uniformity and accuracy will continue to deteriorate
- Revenue loss to districts will accelerate.
- Much revenue loss will be permanent or at least enduring under the current system.
- A successful future depends on reforming CAFFA.

How Would HB 3518 Help?

- HB 3518 would increase and stabilize CAFFA revenue.
- Been set to catch up with inflation since the last adjustment in 1999 and better keep pace with future inflation.
- Three sources of additional revenue:
  - Document Recording Fee for County A&T would increase from $9 to $18; Future fees indexed to inflation, rounded to the nearest fifty cents.
  - Discontinues delinquent interest as A&T funding source; Replaces it with 0.3% property tax distributions (minus bonds);
  - $Allocate $10m per biennium in State General Funds.
- Estimated to cover ~30% of County A&T need. Doesn’t return us to “Peak CAFFA.”

Where will revenue come from?

- Using current tax year numbers, we estimate the following:
- The estimated increase in recording fee revenue will be $4-5m per year.
- The amount delinquent interest returned to taxing districts will be $13.9m.
- The estimated property tax revenue to County A&T will be $26.3m.
- The <u>NET</u> cost to taxing districts statewide is <u>$12.4m</u> and breaks down as follows:
  - $6.3m from K-12
  - $1.7m from cities
  - $2.6m from counties
  - $1.2m from special districts
  - $330k community colleges

CAFFA Model

	2023-24	Model		To CAFFA	To CAFFA Breakdown			From Districts*					
Model Input Paramaters:	**Actual Value**	**Input Value**	**Net Change**	**Revenue Change**	**From Public**	**From Districts**	**From State**	***Schools***	***Cities***	***Counties***	***Special Districts***	***Comm College***	***Urban Renewal***
Document Recording Fee	$9.00	$18.00	$9	$4,164,327	-$4,164,327								
Delinquent Interest Rate	1.3333333%	1.3333333%	0.00%		$0	$0		*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
Tier 1 Rate	35.12%	0.00000000%	-35.12%	-$10,926,277		$10,926,277		*$4,479,774*	*$2,294,518*	*$1,857,467*	*$1,529,679*	*$437,051*	*$327,788*
Tier 2 Rate	25.00%	0.00000000%	-25.00%	-$3,019,890		$3,019,890			*$1,509,945*		*$1,006,630*	*$287,609*	*$215,706*
DI Subtotal								*$4,479,774*	*$3,804,463*	*$1,857,467*	*$2,536,309*	*$724,660*	*$543,495*
Timely Payment Discount	2.660000000%	2.660000000%	0.00%	$0	$0	$0							
Back-Tax Deferral Retention	0%	0.00%	0.00%	$0		$0		*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
Property Tax Distribution	0.00%	0.30%	0.30%	$26,344,288		-$26,344,288		*-$10,801,158*	*-$5,532,300*	*-$4,478,529*	*-$3,688,200*	*-$1,053,772*	*-$790,329*
Service Fee (non ad valorem	$0	$0	$0	$0	$0								
State General Fund	$0.00	$10,000,000.00	$10,000,000.00	$10,000,000			-$10,000,000						
			Totals	$26,562,447	-$4,164,327	-$12,398,120	-$10,000,000	***-$6,321,384***	***-$1,727,837***	***-$2,621,062***	***-$1,151,891***	***-$329,112***	***-$246,834***
			PEAK TARGET	**$35,000,000**	**-$14,164,327**								
			ACTUAL CAFFA	**$18,233,733**									
			COUNTY EXP	**$146,881,980**							-$12,151,286		
			PEAK CAFFA %	**36.2%**		**$12,398,120**	**-$13,946,167**						
			CALC CAFFA %	**30.5%**									

Returns on Investment

- We conservatively estimate that taxing districts, on-average, would see a return on investment of 300-400%.
- That's more money for school districts, cities, counties, and special districts. They will all benefit.
- Because school district taxes tend to be more compressed than government taxes, the school ROI will tend to be higher.
- That's based on the current state of the asset. But the asset is eroding.
- Property owners and the public will receive better, more consistent service, more accurate valuations, and more uniform and equitable treatment.
- Taxing districts will receive more robust assistance from County A&T in their own budgeting processes. Which is a service offered free of charge.

Where Does the ROI Come From?

- Increased capture of omitted property through reappraisal.
- Timely addition of new value to the property tax roll.
- Adequate capacity to defend valuations in tax court.
- Improved accuracy in valuations will reduce tax loss to Measure 5 compression.
- Enhanced public education leads to more accurate tax filings.

ROI Highlights* - On the Record

- $18 million per year in omitted property from Clackamas County.
- $5-10m per year in Measure 5 compression avoidance due to inaccurate appraisals in Multnomah County.
- $5m in omitted property from Hood River County.
- $5-9m in revenue defense related to high value retail appeals.
- $12 million per year in omitted property from Lane County.

* (At full implementation)

Impacts vary by County

- Not every county will have a significant ROI at present. The majority will.
- ~8-10 County A&T Offices are "healthy" in that they have adequate staffing, a well-maintained asset, and have no immediate funding crisis.
- ~6-8 counties are in a state of complete failure with inadequate staffing, a disintegrating tax based, and immediate and ongoing funding shortfalls.
- ~20 counties are struggling to varying degrees either in the sense that they are understaffed and falling behind, have an asset that is eroding, or is beginning to erode, and an immediate or pending funding shortfall.
- All counties are on a downward trend due to continued CAFFA declines.

What’s Not (Yet) in the Bill

- We’re committed to ensuring that this funding is dedicated to County A&T.
- We’re committed to ensuring that first priority is getting value added back to the rolls and revenue back to taxing districts.
- We’re committed to legislative follow-ups and progress reports.
- We’re committed to hearing from districts to learn what else they’d hope for in terms of service improvements.
- We’re open to discussing tweaks to the funding methodology and have identified a few adjustments needed to the sections on document recording fees and property tax distributions.

Final Remarks

- County A&T is unique as a taxing district function in that it’s the only function that all other taxing districts rely on for their operating revenues.
- County A&T is the financial backbone of local governments and special districts, including schools, EMS, fire protection, cities, and of course counties.
- County A&T works on behalf of taxing districts <u>*and*</u> the public. It relies on their support to function effectively.