Testimony on HB 2321

House Revenue Committee

Kris Nelson, June 3, 2025

Chair Nathanson and members of the committee, for the record I'm Kris Nelson, legislative director or Common Ground OR-WA, a nonprofit research and advocacy organization based in Portland since 2013.

Since implemention of Measures 5 and 50 about 30 years ago, several reports have identified their impacts and unintended consequences. I'd like to highlight results of two of them and propose amending the bill to broaden its scope.

The governor's Housing Productivity Advisory Group in its Tax Reform Working Group recognized the failure of Measures 5 and 50 to bring equity and fairness to Oregon's property tax. It also acknowledged that limiting assessments and tax rates fails to provide adequate local government revenue and encourage development of needed housing. We agree with all the recommendations of the Working Group, with one exception:

We do not believe that increasing the annual Maximum Assessed Value change to 5 percent will achieve meaningful results. The Legislative Revenue Office's RESEARCH REPORT #4-15: *Analysis of Options for Restructuring Oregon's State and Local Revenue System* found that Measure 50 created a rigid, inflexible system leading to horizontal inequities for taxpayers – the unequal tax treatment of taxpayers with similarly valued property. *This inequity is caused by the divergence of assessed value from real market value.* When general home prices rise, horizontal inequities can increase over time. Land values in some neighborhoods within a county grow more rapidly than others.

The Northwest Economic Research Center at Portland State University in its FINAL REPORT: *Oregon Property Tax Capitalization: Evidence from Portland*, March 2014, confirmed the inequities of the system based on differing rates of changes between maximum assessed value (MAV) and real market value (RMV). The study found that differences in property tax payments are having a significant effect on sale price. Houses that have experienced large growth in value since the inception of the current system tend to be paying less as a percentage of their homes' value in taxes, which increases sale price. This disproportionately benefits property owners who can afford to buy in areas with faster increases in property values. This report focuses on Portland, but this same dynamic is likely at play in the rest of the state.

Our earlier study of tax limitation effects in Salem (Tax Shift Sequential to Land-Based Property Tax System in Salem, Oregon, Nov. '99) found that by 1998 tax burdens had shifted off higher value, fast-growing properties onto low-value, slow-growing ones. Disproportionately high tax burdens occurred on central business district developed parcels and residential properties in general. PSU's NERC studies and others have confirmed similar impacts.

We have to conclude that the MAV system by any means of contrivance is problematic. When authorizing additional taxes at the local level whether by voter approved bonds, local option levels, or newly created special districts, the effects are sporadic and stop-gap at best. Measure 5 also constrains the ability of local jurisdictions to raise tax revenues.

The HPAC Work Group is clear in its diagnosis: Oregon's property tax system disincentivizes improvements to real property; eliminating the disincentive will lead to the creation of more housing units. A land-weighted property tax structure is the clear path to this objective.

A reduction in tax rate on improvement assessments would facilitate the renewal and replacement of obsolete buildings in a region's central cities. Property owners, responding to the fiscal inducement to reduce the land-to-building value ratio, would build more intensively on vacant and underutilized sites. Stagnating local business districts, including historic "main streets," could be revived under the land value tax.

Because the differential-rate tax is applied uniformly to all properties within a jurisdiction, the general effect would be a restraint on rising land prices, leading towards greater housing affordability. When the land tax encompasses an entire housing market, there is a general downward pressure on location rents. This occurs because the higher tax on land values is capitalized into lower residential land sales prices.

These propositions have been supported by several independent studies conducted by LRO, PSU's NERC, Common Ground-OR/WA, City Club of Portland, Portland METRO, and Institute of Public Policy & Management, and University of Washington, among others. These studies cover the jurisdictions of Portland, Multnomah & Washington counties, Salem-Kaiser, Clark County, King County, and Washington State.

We propose that the bill's language include solutions to the disparate impacts of the tax limitations.

Thank you.

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