



OREGON PROPERTY TAX SYSTEM

Lou Ogden

Lake Oswego Rotary Club

Dec 1, 2014



Oregon Property Tax

What It Pays for:

1. School Operations & Buildings
2. City/County/Special Districts
 - A. Buildings
 - B. Parks
 - C. Libraries
 - D. Police
 - E. Fire
 - F. Courts
 - G. Public Health
 - H. Administration



Oregon Property Tax

What It Does Not Pay for:



1. Water
2. Sewer
3. Roads
4. Storm Water



Oregon Property Tax



Like State & Federal Income Tax-
Is Progressive

Ad Valorem
Based Upon Property Values



Annual Family Blazer Game

Three Components:



1. Ticket Price
2. Popcorn, Hotdogs, Drinks
3. Aldridge Jersey, Ball Cap, Bobble head



Property Tax

Three Components:



1. Base Tax Rate
2. Voter Approved Temporary Additional Operating Levies
3. Voter Approved Temporary Capitol Bond Levies



Your Property Tax =

Base Rate

+ Operating Levies

x Assessed Value



Your Property Tax

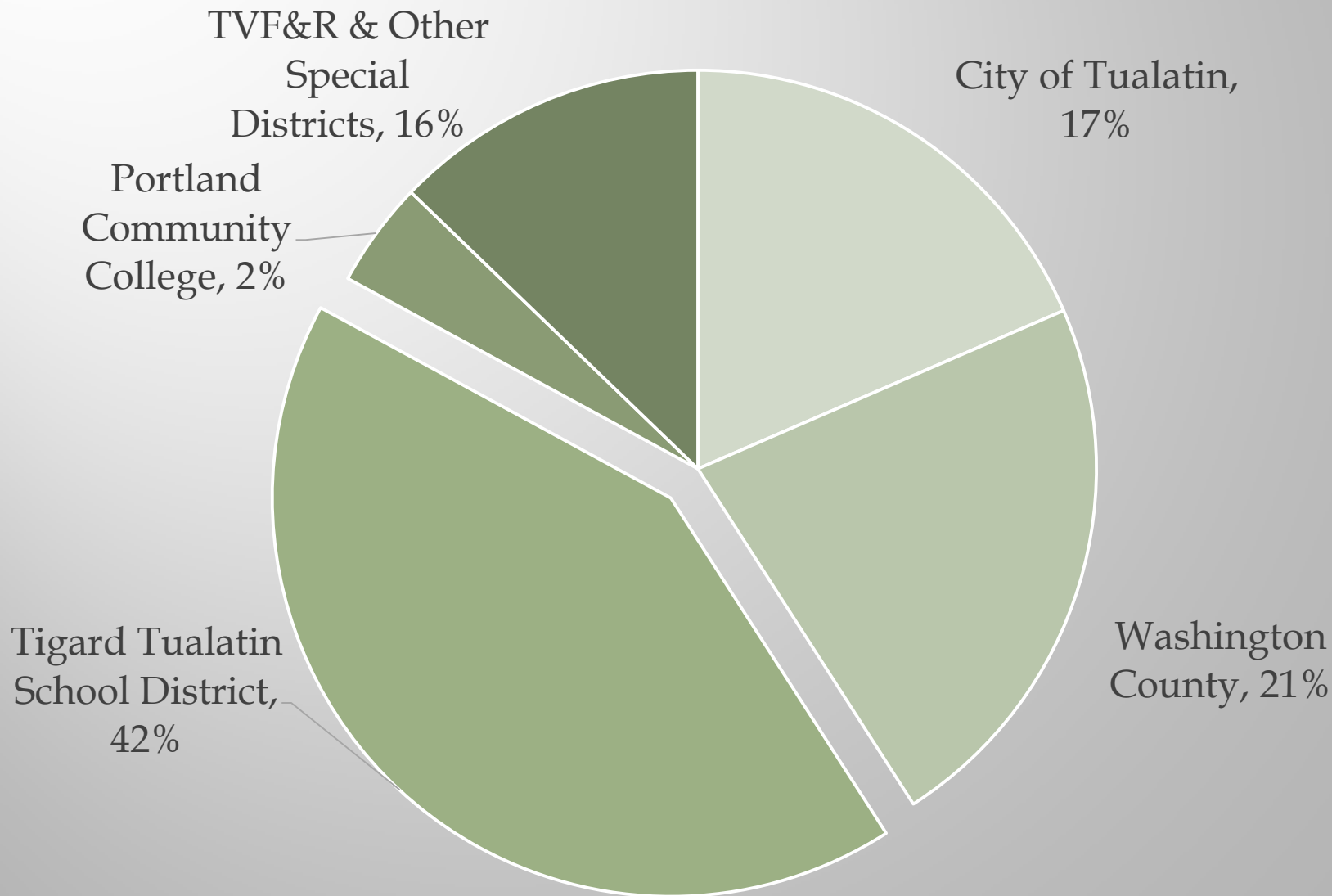
Then add any voter approved bond measures for capital projects

Buildings
Parks
Roads





Where the Money Goes - Property Tax in Oregon



Measure 5 (1990)

Addresses RATE



- ▣ **Capped property taxes Rates**
- ▣ **Governments** cities, counties, special districts
 - \$10 per \$1000 of RMV (1%)
- ▣ **Schools** \$5 per \$1,000 of RMV (0.5%)
- ▣ **Real Market Value (RMV)=Assessed Value (AV)**
 - ▣ \$300,000 RMV home = \$3,000 limit on general government property taxes; \$1,500 limit for schools
 - ▣ Measure 5 limits mimic the real estate market
 - ▣ *Limits do not include capital bond measures*



Measure 50 (1997) Addresses ASSESSED VALUE and FIXED PERMANENT RATES

- ▣ Set a new assessed value (AV) level
 - At 10% less than 1995 RMV
- ▣ **Capped** annual growth in AV
 - ▣ **at 3% Annually**
- ▣ Set permanent rates for all taxing districts

Two Limitations



If tax extended is greater than the maximum allowable tax, the difference is reduced or “**compressed**” and is not collected by the taxing district(s).

Measure 5 limits

and

Measure 50 limits

Real Market Value (RMV)
x Maximum Tax Rate
(\$5 schools / \$10 gov.)
= Maximum Allowable Tax

Assessed Value (AV) x
Tax Rate
= Tax Extended

Two Property Tax Phenomena Over Time:

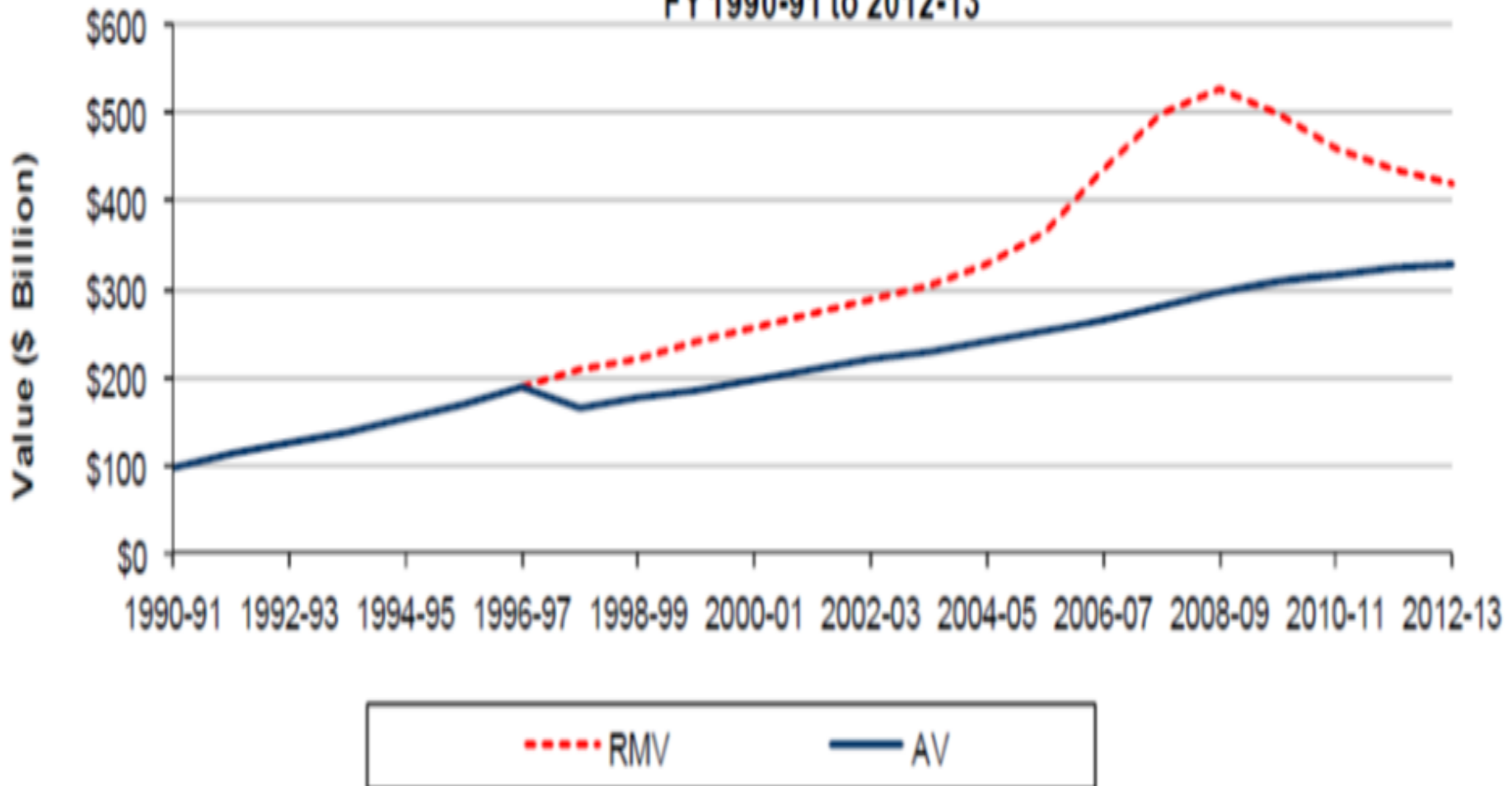
1. Real Estate Values Change
2. Voter Approved Levies/Districts



Assessed Values vs. Real Market Values



Assessed and Real Market Values of Property in Oregon
FY 1990-91 to 2012-13

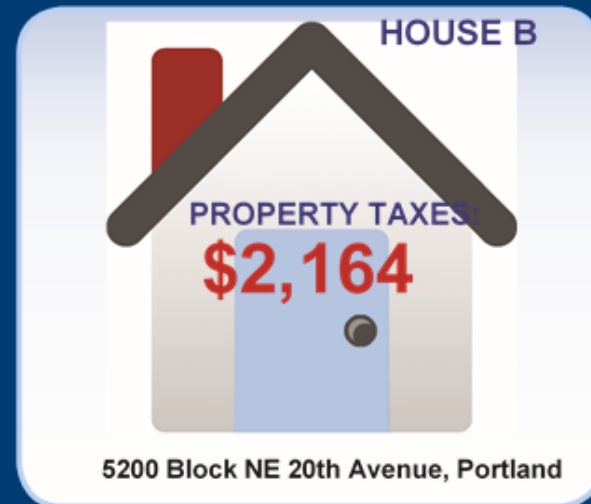




Major property tax inequities exist between some homeowners



Both houses sold in Spring 2013 for \$325,000



Difference in property taxes paid per year: **\$3,247**

Tax amounts in this example are from FY 2013-14.

Inequity – Neighborhood to Neighborhood



Measure 50 locked in AV at 1995 levels

A Tale of Two Blocks

Block 1	RMV	AV	Taxes
9910 SW 61st	\$ 269,670	\$ 213,930	\$ 4,236
9931 SW 61st	\$ 270,590	\$ 236,110	\$ 4,270
9930 SW 61st	\$ 279,390	\$ 216,920	\$ 4,385
9911 SW 61st	\$ 311,450	\$ 252,070	\$ 4,897

This block receives a Measure 50 discount of **13 to 23 percent** off their tax rate applied to their RMV.

Block 2	RMV	AV	Taxes
5134 NE 16th	\$ 267,870	\$ 72,870	\$ 1,624
5117 NE 16th	\$ 268,480	\$ 51,790	\$ 1,154
5126 NE 16th	\$ 282,140	\$ 51,640	\$ 1,151
5133 NE 16th	\$ 352,530	\$ 81,930	\$ 1,826

This block receives a Measure 50 discount of **73 to 82 percent** off their tax rate applied to their RMV.

Established

Gentrifying

* Figures are from 2011-12 tax statements

Two Property Tax Phenomena Over Time:

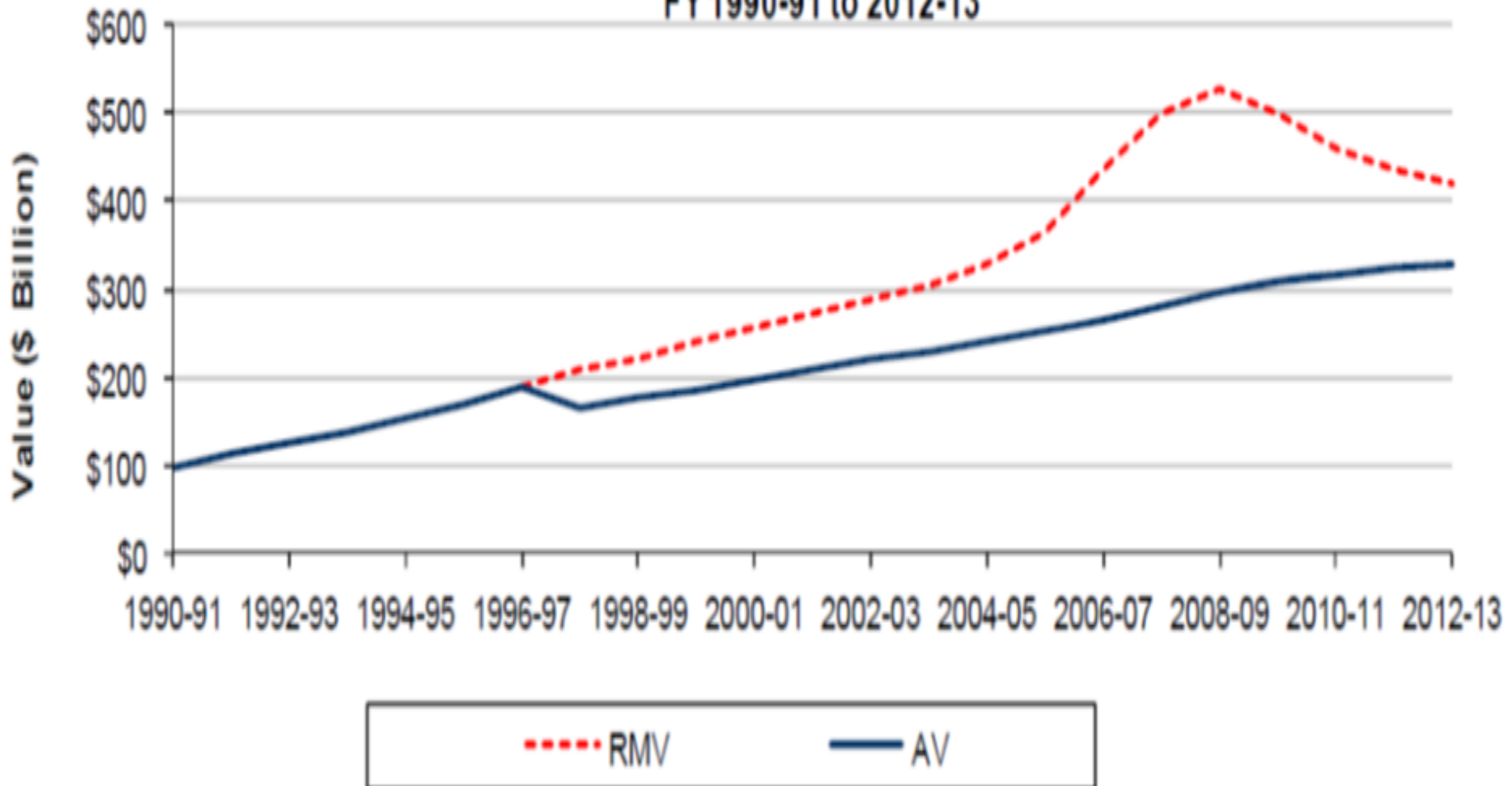
1. Real Estate Values Change
2. Voter Approved Levies/Districts



Assessed Values vs. Real Market Values



Assessed and Real Market Values of Property in Oregon
FY 1990-91 to 2012-13



Compression



- ▣ If the property **taxes on an individual property** exceed the Measure 5 limits, the taxes are reduced until the limitations are reached, *a process known as compression*
 - Voter-approved temporary *local option tax levies are reduced first, all the way to \$0*, before collections from permanent rates are compressed
 - More than half of Oregon cities are in compression, as are all counties and *90 percent of school districts*





Property Tax Caps Override Local Votes



Percentage of local option levy revenue lost to statewide limits, FY2012-13

Tax District	
Morrow County School District	71.8%
West Linn/Wilsonville Sch. Dist.	70.1%
Crow-Applegate-Lorane Sch. Dist.	66.3%
Tigard-Tualatin School District	58.0%
Eugene School District	56.3%
Corvallis School District	47.1%
City of Portland Children's Levy	46.7%

Tax District	
Pendleton School District	41.7%
Ashland School District	34.7%
Portland Public Schools	34.6%
Sweet Home Police & Library Levy	33.1%
Lake Oswego School District	31.3%
Albany Public Safety Levy	29.1%
Hood River County School District	22.8%

Data obtained from the Oregon Department of Revenue.

Compression Loss on Local Option Levies

	Percentage of levy lost to M5 compression	Calculated Tax	Taxes reduced due to M5 compression	Tax imposed
Morrow County School District Levy	72%	\$ 1,421,000	\$ 1,020,000	\$ 401,000
West Linn/Wilsonville School District Levy	71%	\$ 9,320,000	\$ 6,585,000	\$ 2,735,000
Crow-Applegate-Lorane School District Levy	66%	\$ 313,700	\$ 208,000	\$ 105,700
Tigard-Tualatin School District Levy	57%	\$ 8,773,000	\$ 4,994,000	\$ 3,779,000
Eugene School District Levy	56%	\$ 18,778,000	\$ 10,550,000	\$ 8,228,000
Portland City Children's Levy	47%	\$ 19,175,000	\$ 8,949,000	\$ 10,226,000
Corvallis School District Levy	47%	\$ 7,746,000	\$ 3,602,000	\$ 4,144,000
Portland Public School District Levy	34%	\$ 80,164,000	\$ 27,414,000	\$ 52,750,000
Sweet Home City Police and Library Levies	33%	\$ 2,735,000	\$ 905,000	\$ 1,830,000
Albany City Public Safety Levy	33%	\$ 2,500,000	\$ 825,000	\$ 1,700,000
<i>Numbers reflect 2012-13 taxes</i>				

Major Problems



People not paying for voter-approved taxes

The Oregonian

Oregon's Tax Trouble | First in a continuing series

Hiking your neighbor's taxes

Oregonians have heard complaints about the state's property tax system so often that many have probably stopped listening. That's too bad. In many ways, our system really is nuts.

Disagree? Consider the Multnomah County local option levies supporting libraries and the Oregon Historical Society. About one third of Portland homeowners don't have to pay the entire amount, and more than a quarter of Portland homeowners don't have to pay anything at all, according to Portland City Economist Josh Harwood. That's unfair to other Portlanders, and it's particularly unfair to residents of Multnomah County cities like Gresham, where such accidental tax breaks are rare.

The culprit is a phenomenon known as compression, which is a function of the interplay of two ballot measures. The first is 1997's Measure 5, which limited taxes for education to \$5 per \$1,000 of property value and taxes for general government to \$10 per \$1,000. The caps don't apply to taxes for bond measures.

The second is 1997's Measure 50, which rolled back property values for taxation purposes, leading to the creation of two different property values. Assessed value — normally the lower of the two — is used to calculate taxes. Real market value, which theoretically reflects a property's likely sale price, is used to calculate tax caps for education and general government.

The measures have limited property taxes, as intended. But in doing so, they've created compression-related inequities and distortions in a number of cities, including Portland. They also tie the hands of local voters.

Here, according to city officials, compression begins to occur when assessed value climbs above 70 percent of real market value. At that point, a property's potential tax bill exceeds its cap and is "compressed" to fit. The first elements to be squeezed are local option levies — the library levy, for instance. If such levies have been compressed to zero and a property's tax bill still over the cap, compression affects permanent funding.

As a result of compression, the countywide Oregon Historical Society levy lost about \$95,000 — or one third — in 2011-12. The library levy also lost one third, worth roughly \$16.9 million. And in Portland, the levy for children's programs lost about \$7.6 million, or roughly 40 percent.

The compression of education-related property taxes is a big problem.

Thanks to property tax compression, thousands of Portland homeowners may vote in support of tax hikes from which they are effectively exempt

lem, too, both in Portland and across the state. Here, for instance, compression sapped the district's local option levy of about \$23 million, or roughly 90 percent, in 2011-2012.

Because compression occurs on a property-by-property basis, owners of affected properties effectively vote to impose higher property taxes on others than on themselves, though they may not know this when they cast their ballots.

And because government entities that rely upon local option levies know that compression will cut their collections, they tend to ask for more than they actually need, says Tom Linbarn, executive director of the Multnomah County Tax Supervising & Conservation Commission. Without compression, they'd be able to request a lower tax rate, and taxpayers whose properties aren't in compression wouldn't have to compensate for everyone else.

Unfortunately, the problem is a lot easier to spot than it is to fix.

To some extent, compression will ease as the housing market improves, but it won't go away. Governing boards and voters, meanwhile, can help by requesting and approving fewer, and more modest, local option levies — though neither appears likely to happen in Portland.

Another option is to exempt local option levies from the Measure 5 property tax caps, as the League of Oregon Cities and other groups would like. Accomplishing this wouldn't be easy, however, as it would require a constitutional amendment and, therefore, a statewide vote. But it would allow voters to tax themselves as much as they like to pay for services they value.

Legislation referring the change to voters was introduced during the 2011 session, but it didn't pass. The organizers plan to give it another go next year, says Chris Cook with the LOC.

There's no plenty of time to argue about this and other problems during the session, but addressing the compression problem clearly will involve a difficult trade-off. Is it better to have a system that caps taxes, but does so in an inequitable manner that encourages governments to seek larger local option levies than necessary? Or is it better to have a system more fair and increase the power of voters, but in doing so open the door to higher taxes?

The latter, it seems to us at this point, is preferable. Local option levies will still require a vote, and all property owners will have at least some skin in the game.

How compression affects tax collection

Permanent	Total compression
...	...

In many ways, our system really is nuts... About one third of Portland homeowners don't have to pay the entire [local option levy], and more than a quarter of all homeowners don't have to pay anything at all... Thanks to property tax compression, thousands of Portland homeowners may vote in support of tax hikes from which they are effectively exempt. [Measures 5 and 50 have] created compression related inequities and distortions in a number of cities... they also tie the hands of local voters.

Three Major Problems



- ▣ #1 - Undermines local control
 - ▣ Voters are no longer in control of services provided locally
- ▣ #2 – Spillover effects
 - ▣ The actions of one taxing district can have an effect on overlapping districts
- #3 – Some people not paying for voter-approved taxes

Solution

- ▣ Reset at Sale
 - Reset a property's assessed value (AV) to real market value (RMV) at the time of sale or construction

- ▣ Voter Approved Local Operating Levies
 - ▣ Outside M5 Caps by Voter Control
 - ▣ Similar to Capital Bond Measures



Questions?

Additional information available at:
www.orcities.org/taxreform



Oregon's Unique Detachment from RMV



- ▣ On reset at sale: “Of the 18 states that apply their assessment limit to individual parcels, only Arizona, Minnesota, and Oregon do not have this acquisition value feature.”
- ▣ “With no periodic recalibration of assessed values to market levels, the Oregon system has gone the farthest of any in breaking the link between property taxes and property values.”

Source: “Property Tax Assessment Limits: Lessons from Thirty Years of Experience.” Mark Haveman and Terri A. Sexton. Lincoln Institute of Land Policy. 2008.

Solution



- ▣ Voter Control Referral
 - Empower voters to pass local option levies outside of compression
 - Reset a property's assessed value (AV) to real market value (RMV) at the time of sale or construction



Two Referrals:

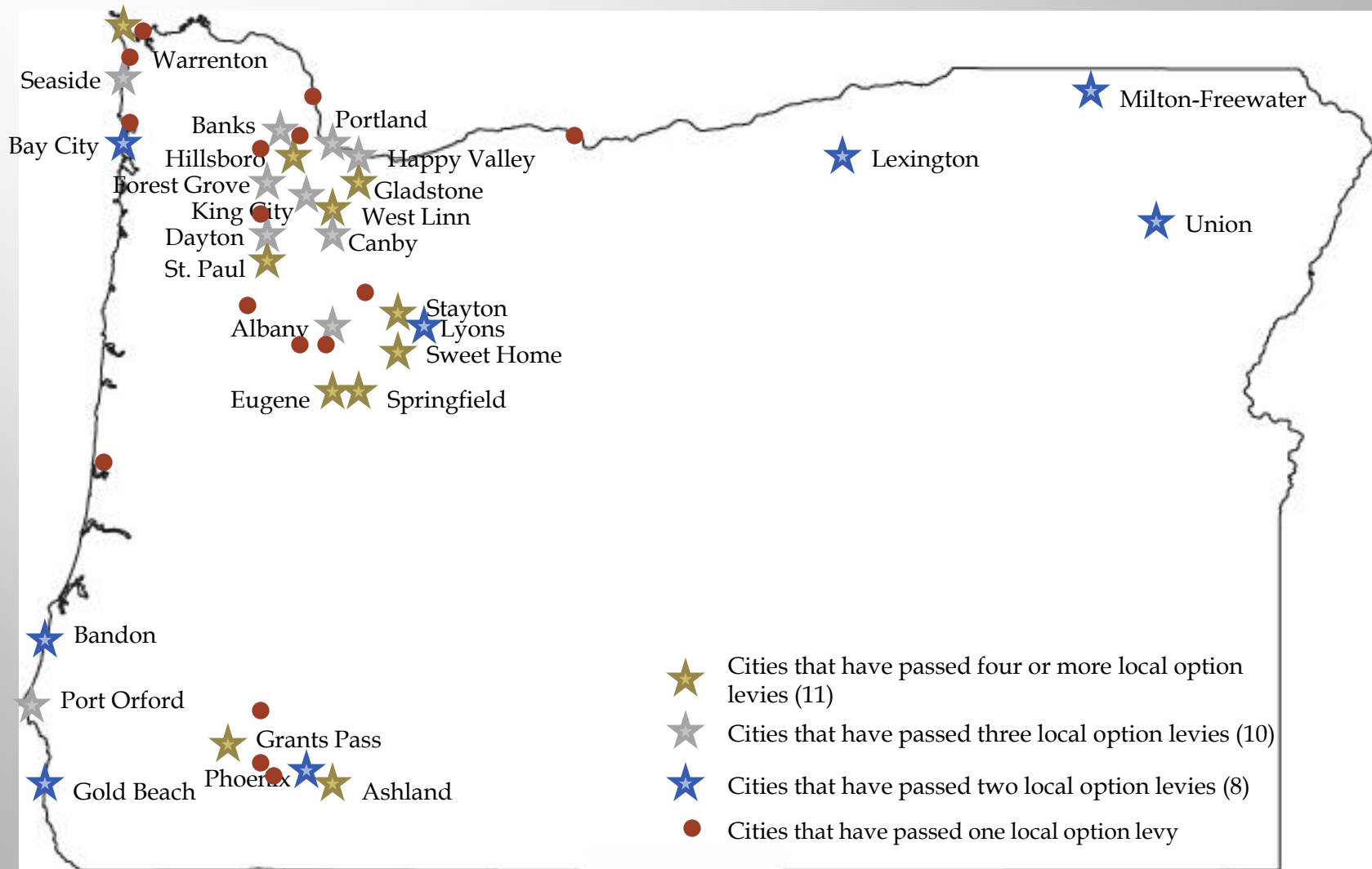
1. Change to Measure 5
2. Change to Measure 50



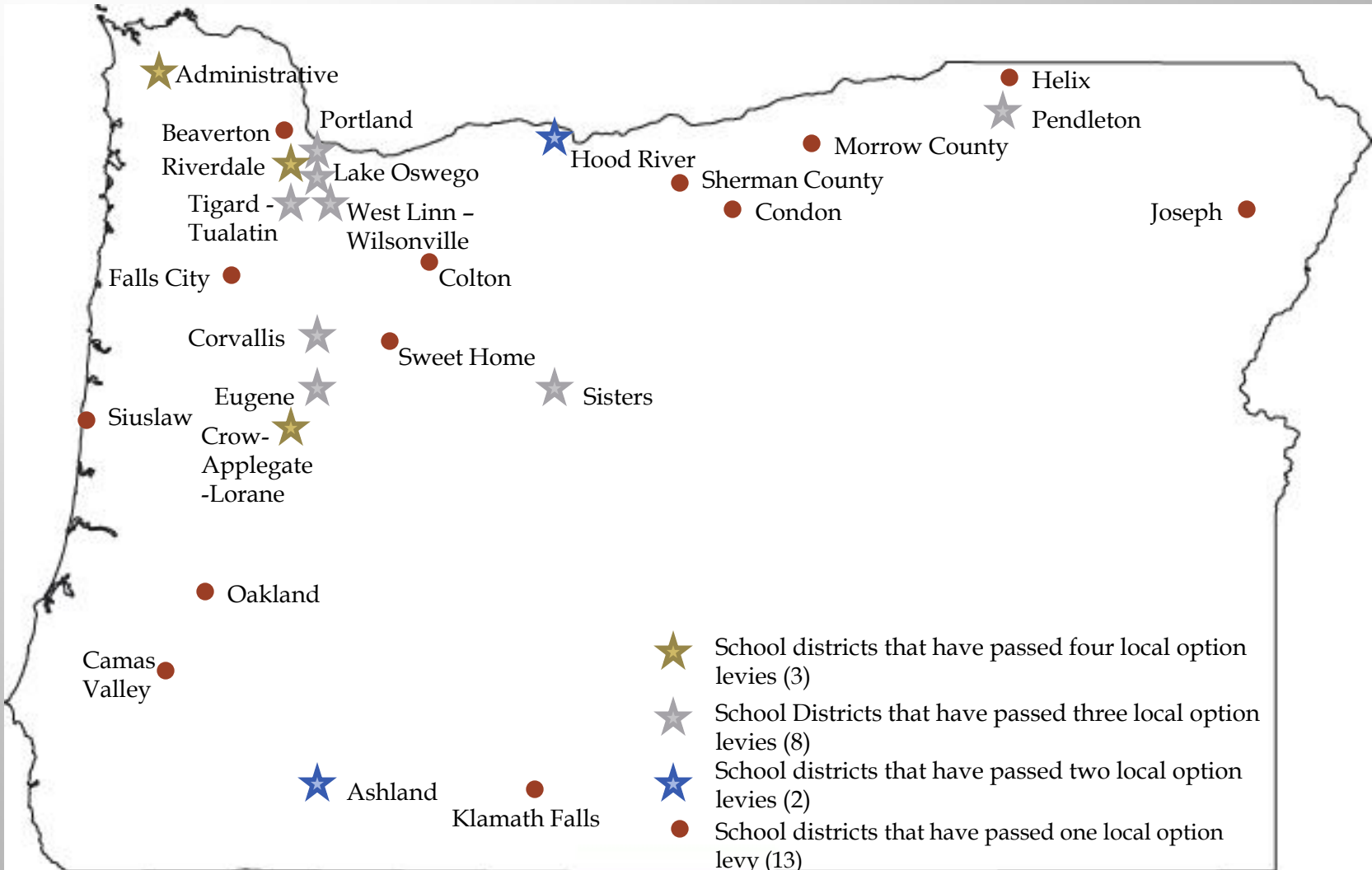
Supplemental Slides



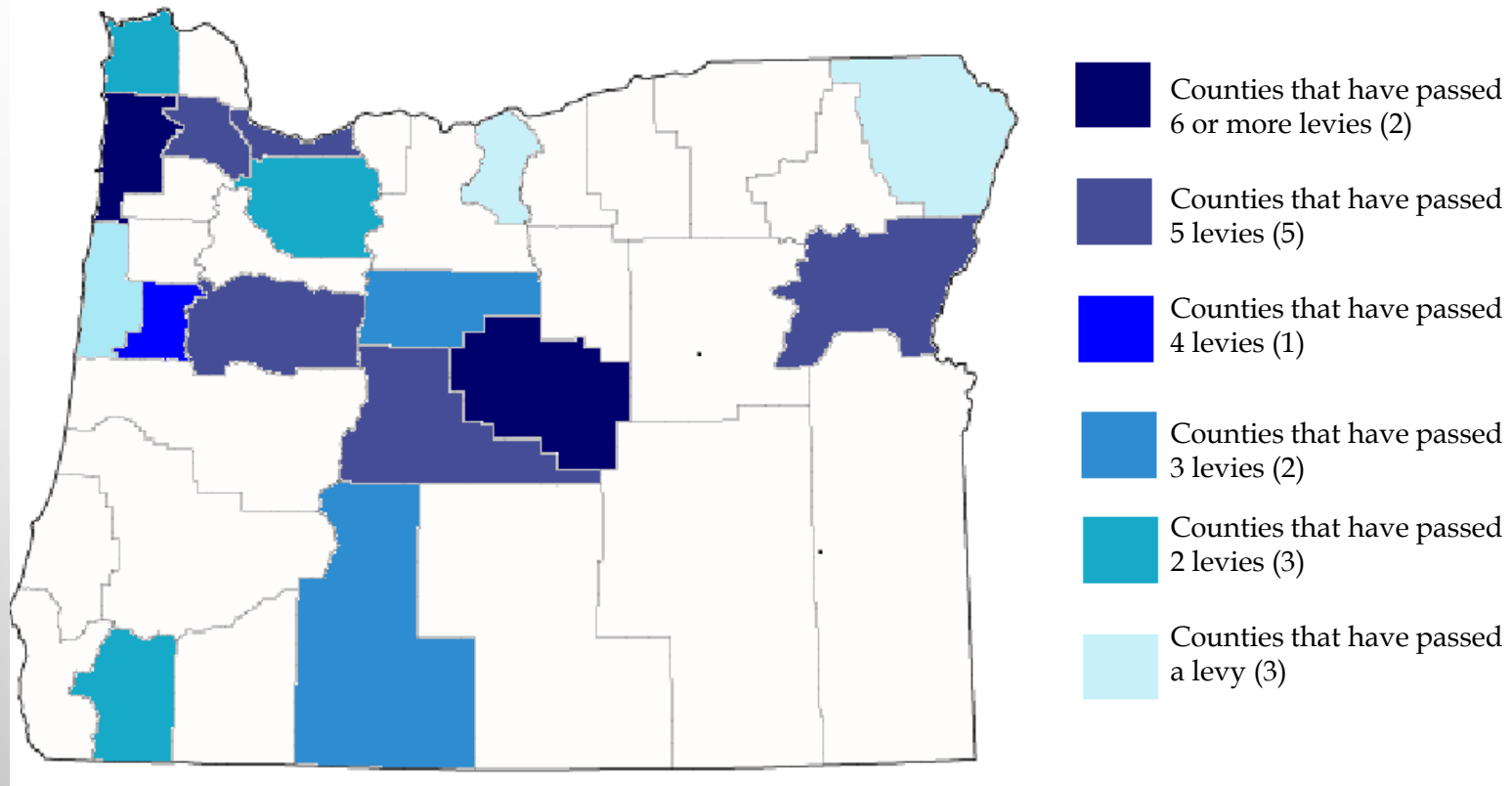
City Local Option Levies



School District Local Option Levies



County Local Option Levies



Fosters Belief in Bad Government

The Oregonian

Multnomah County's cutbacks in hours and services, tied to Oregon's complicated tax code, caught plenty of library-goers off-guard. Hollywood resident David Sparks is among those who voted to extend levy funding in May on the mistaken assumption that the library would stay open seven days a week.

"So terribly disappointed that what we voted for apparently wasn't," said Sparks, who has four children younger than 12 and brings his family to the library weekly.

Multnomah County voters approved the renewal of the library levy with 84% of the vote.





FIXING A BROKEN SYSTEM

Name

City/Organization

Date of presentation



Two Referrals:

1. Change to Measure 5
2. Change to Measure 50

