

Property Tax Reform

Bringing fairness and local choice
to cities' top revenue source.



2022 Finance and Taxation
Policy Committee
April 12, 2022

Introductions

Byron Smith

City Manager for the City of Hermiston



Mark Gharst

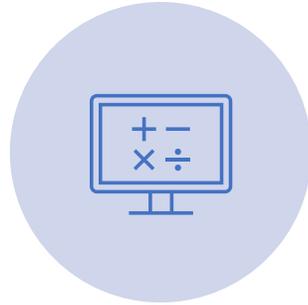
Tax, Finance, and Economic Development Lobbyist for the League of Oregon Cities



What We Will Cover Today



**PROPERTY TAX
HISTORY**



**OUR CURRENT
SYSTEM**



**HOW IT'S
WORKING**



REFORM

Brief History of the Property Tax System



Pre-
Measure 5



Measure 5
1990



Measure 50
1997



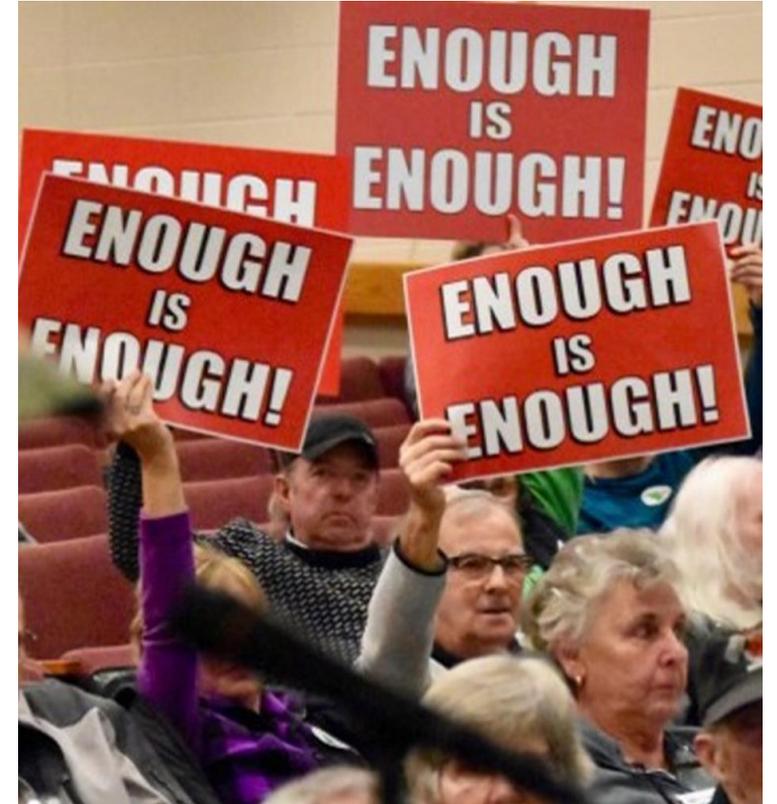
Before Measure 5 – The Levy System

Budgets determined taxes, so taxing district
 $\text{budget} \div \text{market value in district} = \text{tax rate}$

- Some jurisdictions had “tax bases” allowed to increase automatically by 6% annually and voters could approve additional increases
- Other jurisdictions survived on temporary “serial levies” or permanent “continuing levies” with no automatic inflators

Effective statewide tax rate went from
\$19.05/\$1,000 in 1980 to \$26.61/\$1,000 in 1990

- Five failed votes to limit the property tax between 1978 and 1988



Measure 5 - The Hybrid System

Passed in 1990 by a 52% margin, took effect in 1991-92

Budgets still drove rates, but with new rate limits of 1% of market value for general government and 0.5% for schools

Operating taxes beyond rates are *compressed* down, bonds are outside limits and not compressed



Shifted majority of K-12 education funding from local property taxes to state income taxes over five-year phase in

Created competition between districts for revenue under the limits

By 1996 increasing residential values caused rates to fall below limits

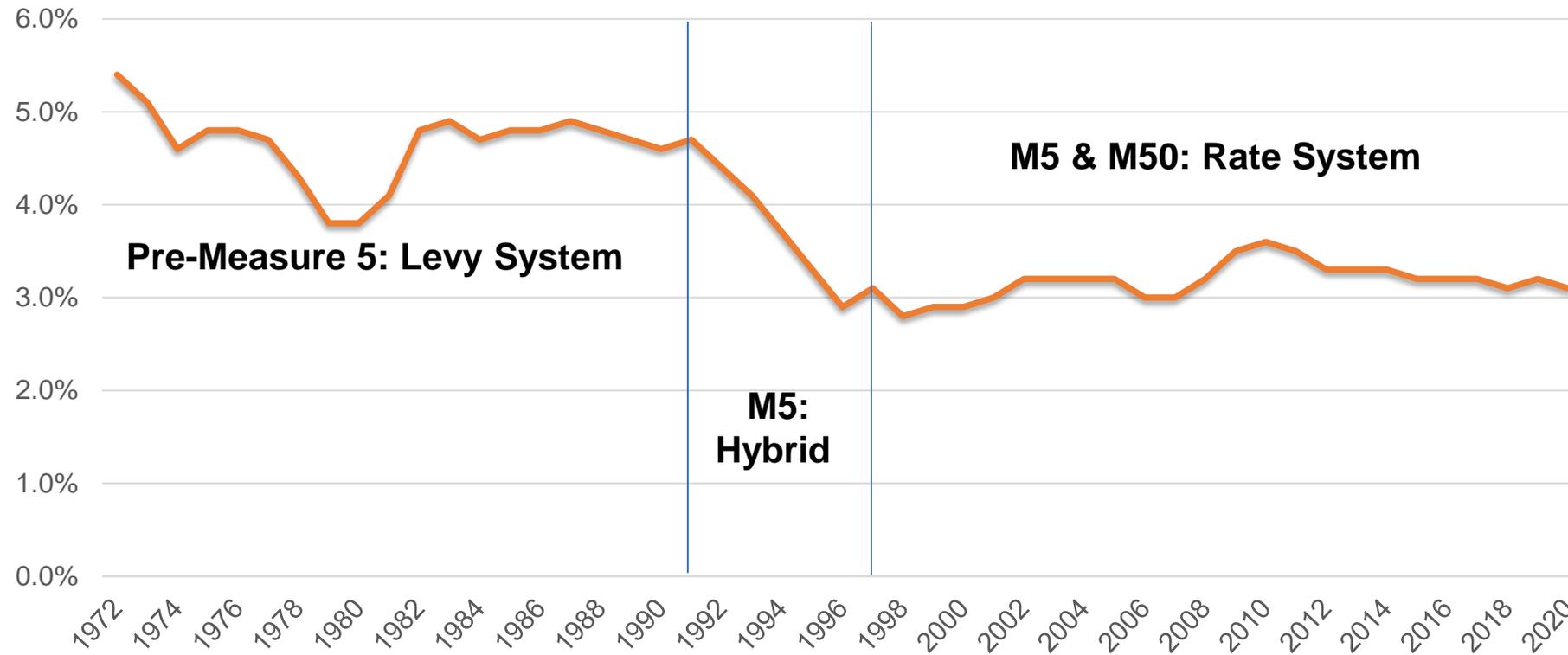
Measure 50 – The Rate Based System

Measure 47 approved by voters in 1996 but was unworkable
Legislature sent Measure 50 to voters in 1997 and it was
approved beginning 1997-98, four main components -



- Created permanent rate limits
- Limited growth of assessed values to 3% annually
- Limited local voters' ability to increase taxes through temporary "local option" levies
- Kept Measure 5 rate limits of 1.5% of market value

Success? Property Tax As Percentage of Personal Income Has Declined



Source – Legislative Revenue Office

Current System Under Measures 5 and 50



M50 Assessed Value is the Lesser of...

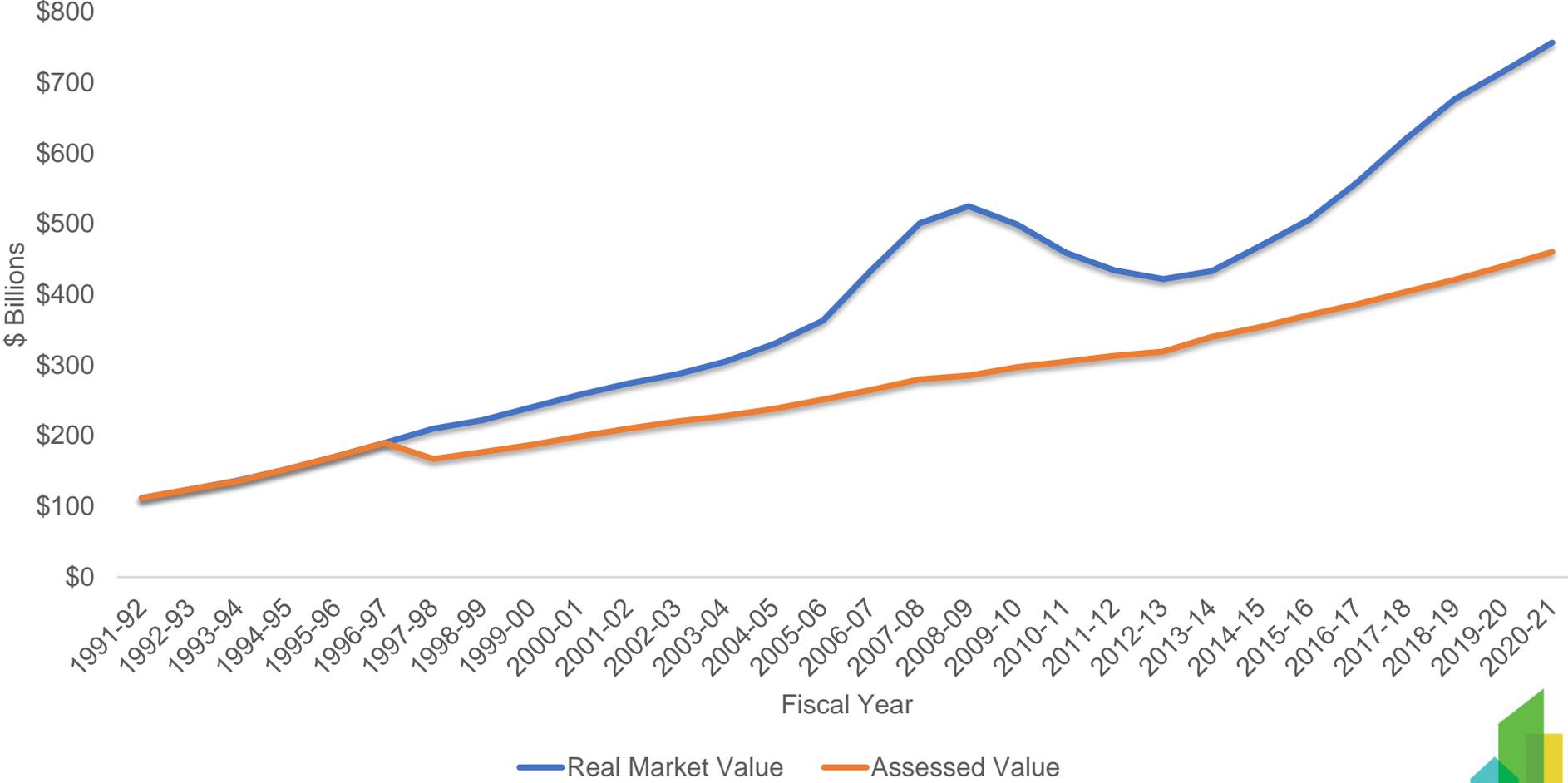
Real Market Value (RMV) **OR** Maximum Assessed Value (MAV)

- What the property could sell for as of assessment date



- Originally set at 90% of 1995-96 market value
- Increase limited to 3% per year unless there is an exception event (like new construction)
- New construction goes on at average ratio for property type in the area

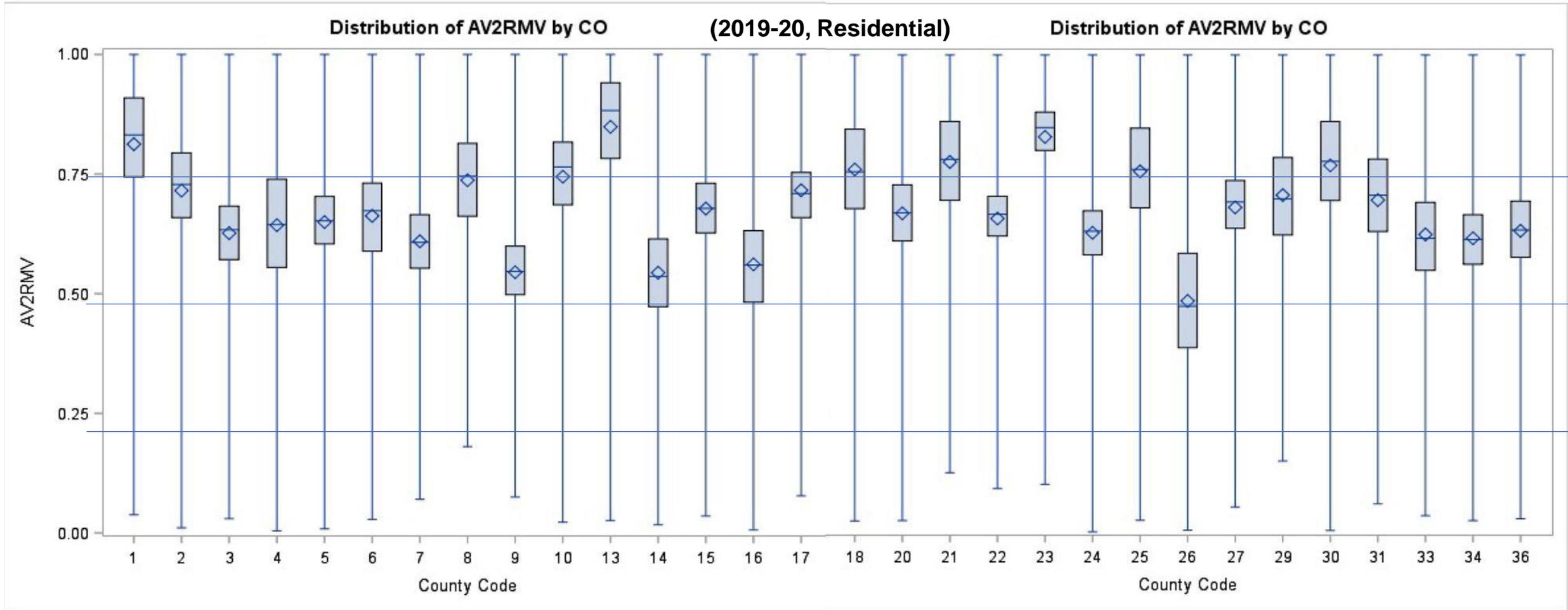
30 Years of Property Values in Oregon



Source: DOR Property Tax Statistics



Assessed vs. Market Value Across 30 Counties



- | | | | | |
|-------------|---------------|--------------|--------------|---------------|
| 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 |

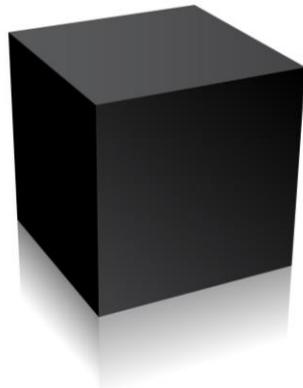
Median - solid horizontal line in box
 Mean - diamond in box
 Max - upper horizontal line
 Min - lower horizontal line
 Box - interquartile range
 Source - Legislative Revenue Office



Measure 50 Rate Limitations

Permanent Rates

- Black box calculation took 1997 levies, reduced by 17%, then divided by 90% of the 1995-96 market value
- Cannot be changed by voters



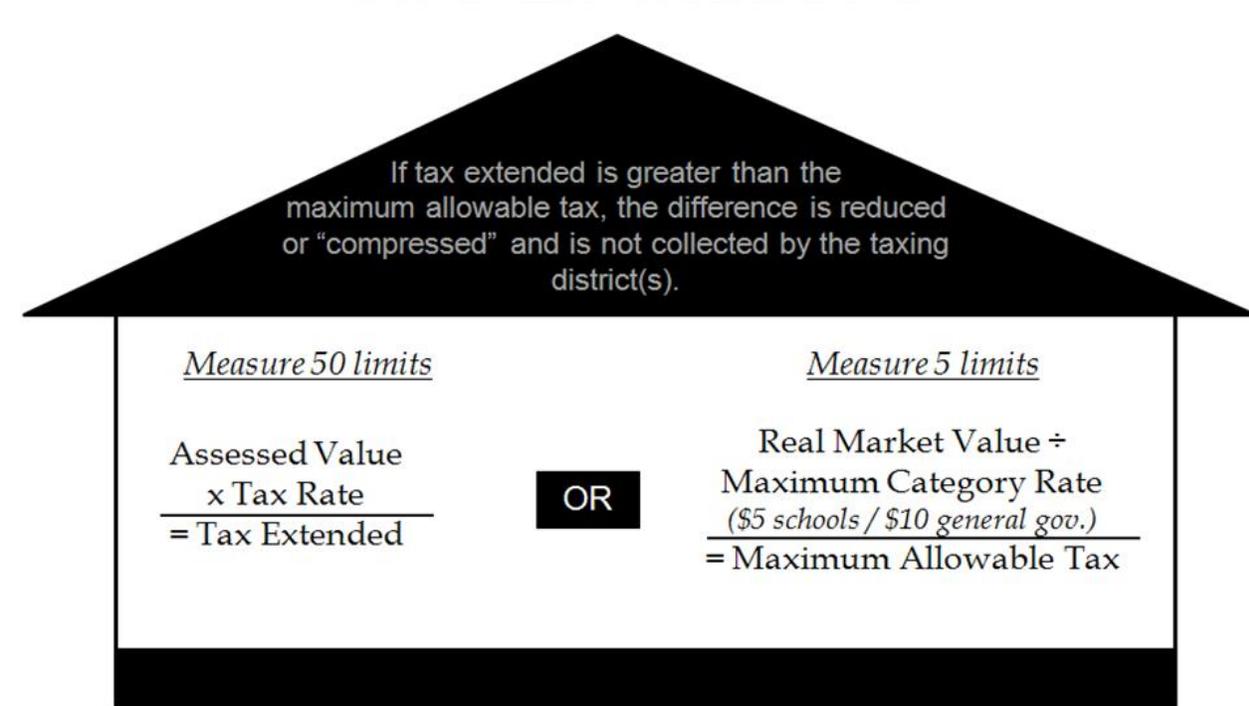
Local Option Levies

- Require voter approval
- Temporary levies for additional capital (10 years) or operating funds (5 years)
- Levied in addition to permanent rates
- Compress to zero before permanent rate levies
- 7.9% of taxes in 2020-21

Measure 5 Rate Limitations

M50 kept the M5 rate limits

- \$10/\$1,000 for general government (1%)
- \$5/\$1,000 for education (0.5%)
- Applied against market value
- Local option levies compressed to zero before permanent rate levies
- Bond levies are **not** compressed



How's it Working After 25 Years?

Tax Inequities

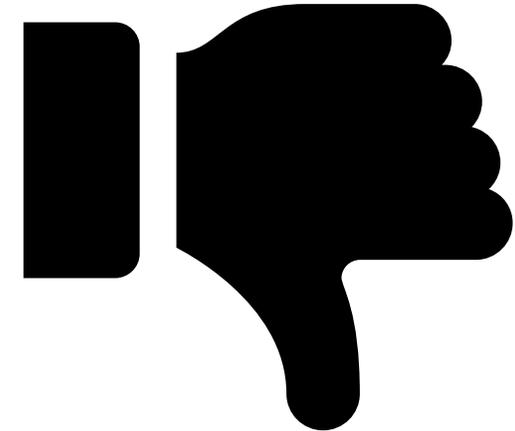
- Between properties
- Between neighborhoods

Rate Inequities

- Magnified by changes in revenue sources

Compression Losses

- Competition between districts
- Not all voters pay



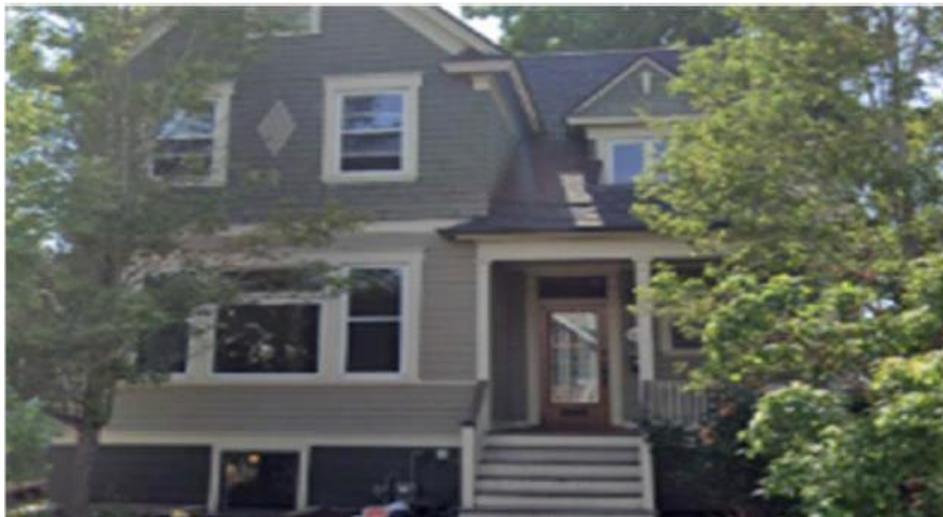
Tale of Two Houses – Portland

Example of unfair Measure 50 outcomes in Multnomah County

Sold in 2019 for \$749K

Market Value \$600K/Assessed Value \$94K

Tax \$2,378



Sold in 2020 for \$755K

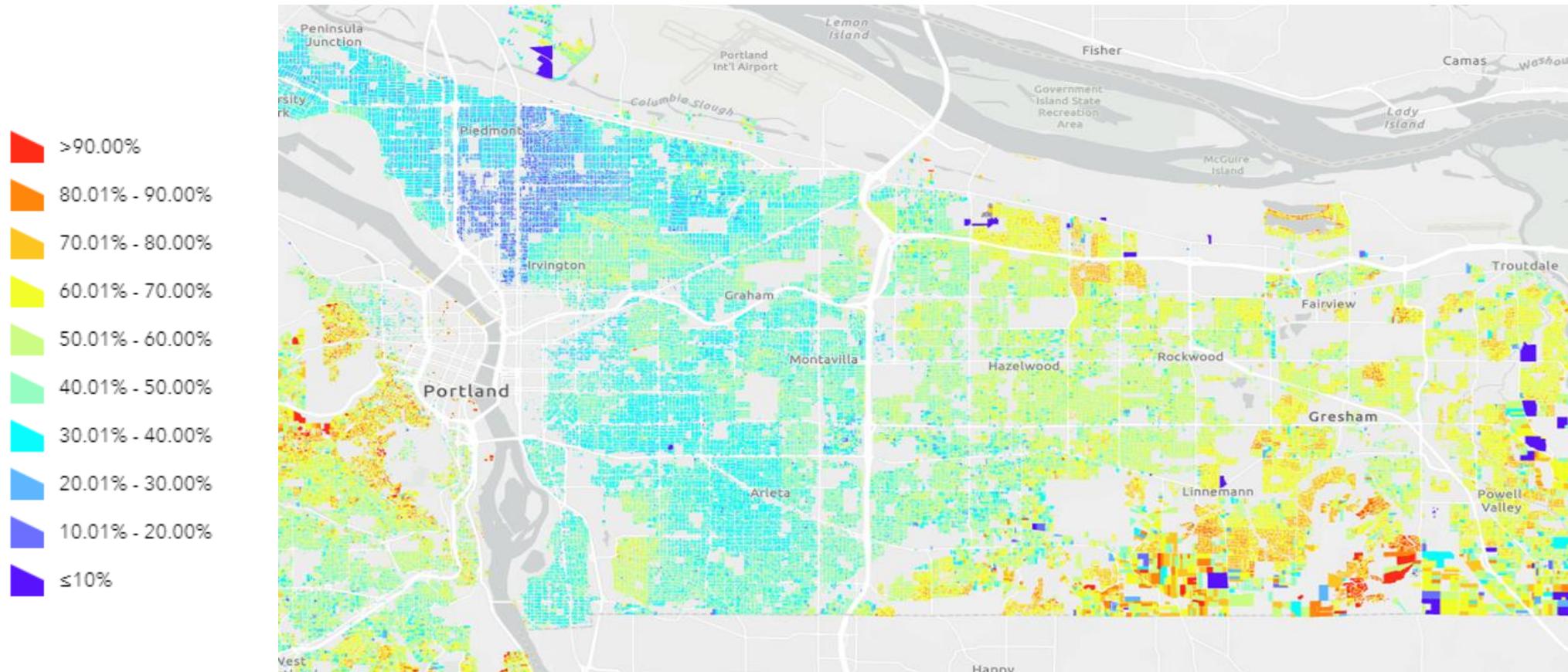
Market Value \$517K/Assessed Value \$517K

Tax \$9,377



Which Neighborhoods Benefit?

Measure 50 benefits are not shared equally across cities

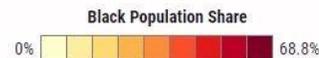
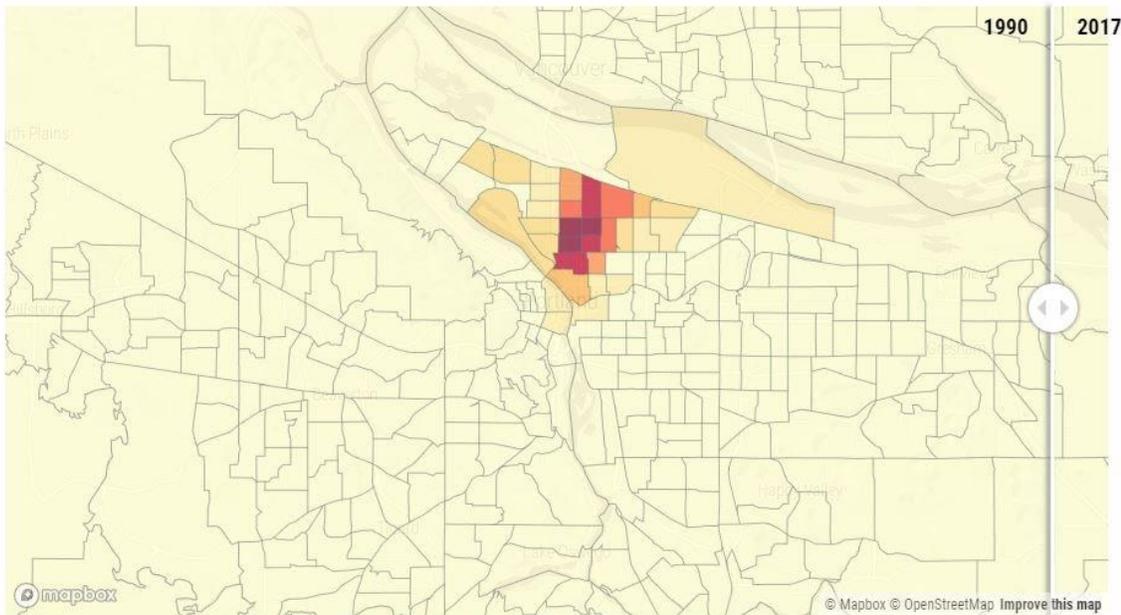


Which Communities Benefit?

Measure 50 benefits are not shared equally across races

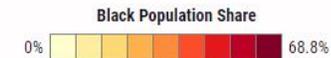
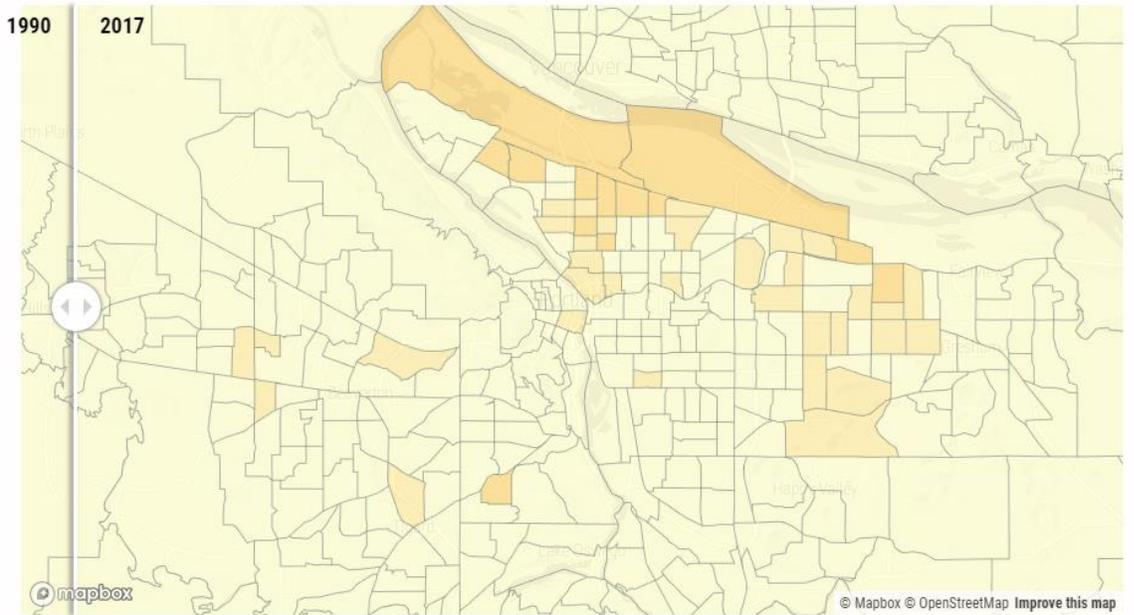
Black Population Share by Census Tract, 1990 vs 2017

Slide to compare 1990 to 2017



Black Population Share by Census Tract, 1990 vs 2017

Slide to compare 1990 to 2017



Tale of Two Houses - Salem

Not just a Multnomah County issue

Sold \$365,000 February 2021

Assessed Value \$259K

2021-22 Tax \$5,095



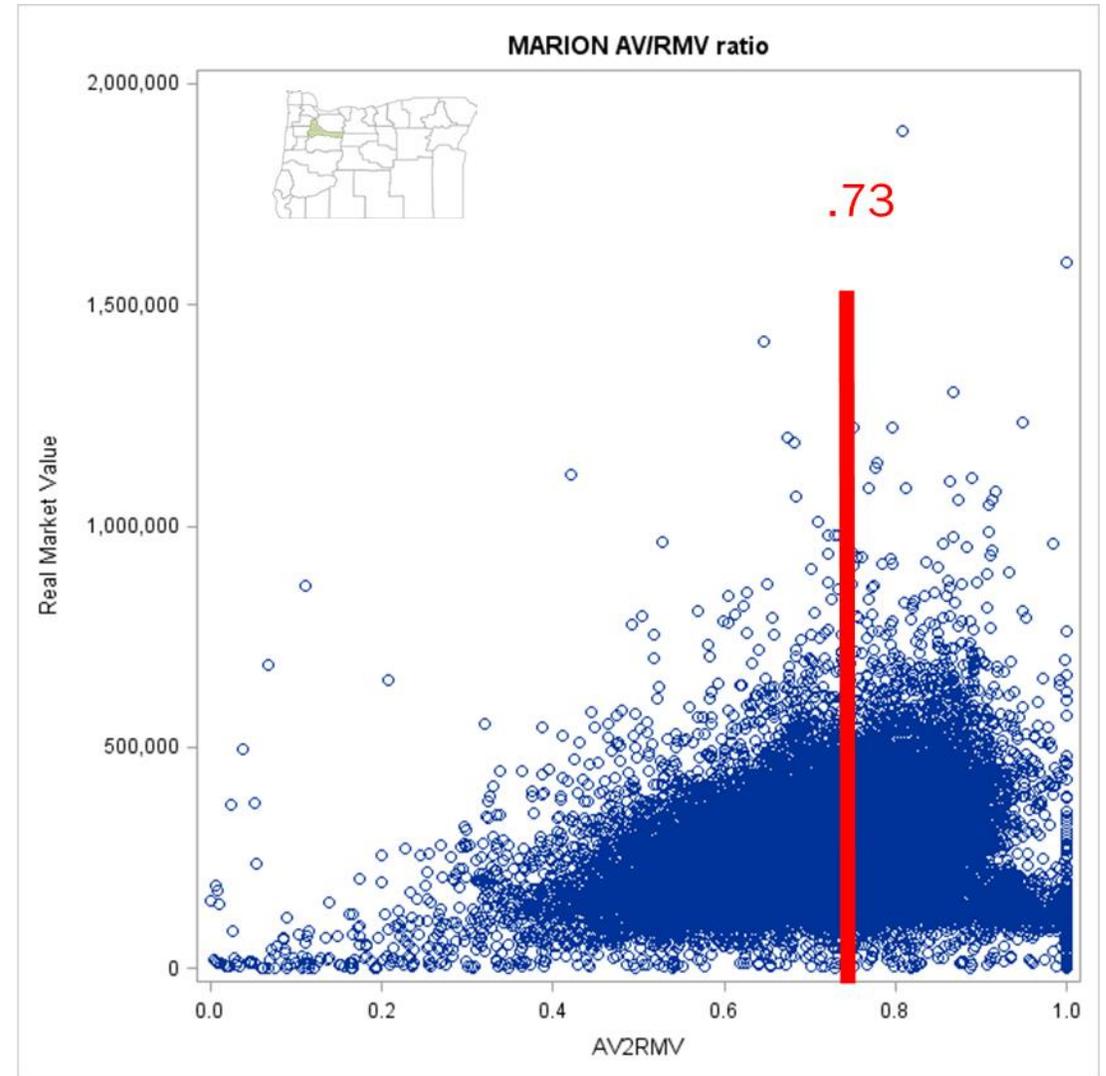
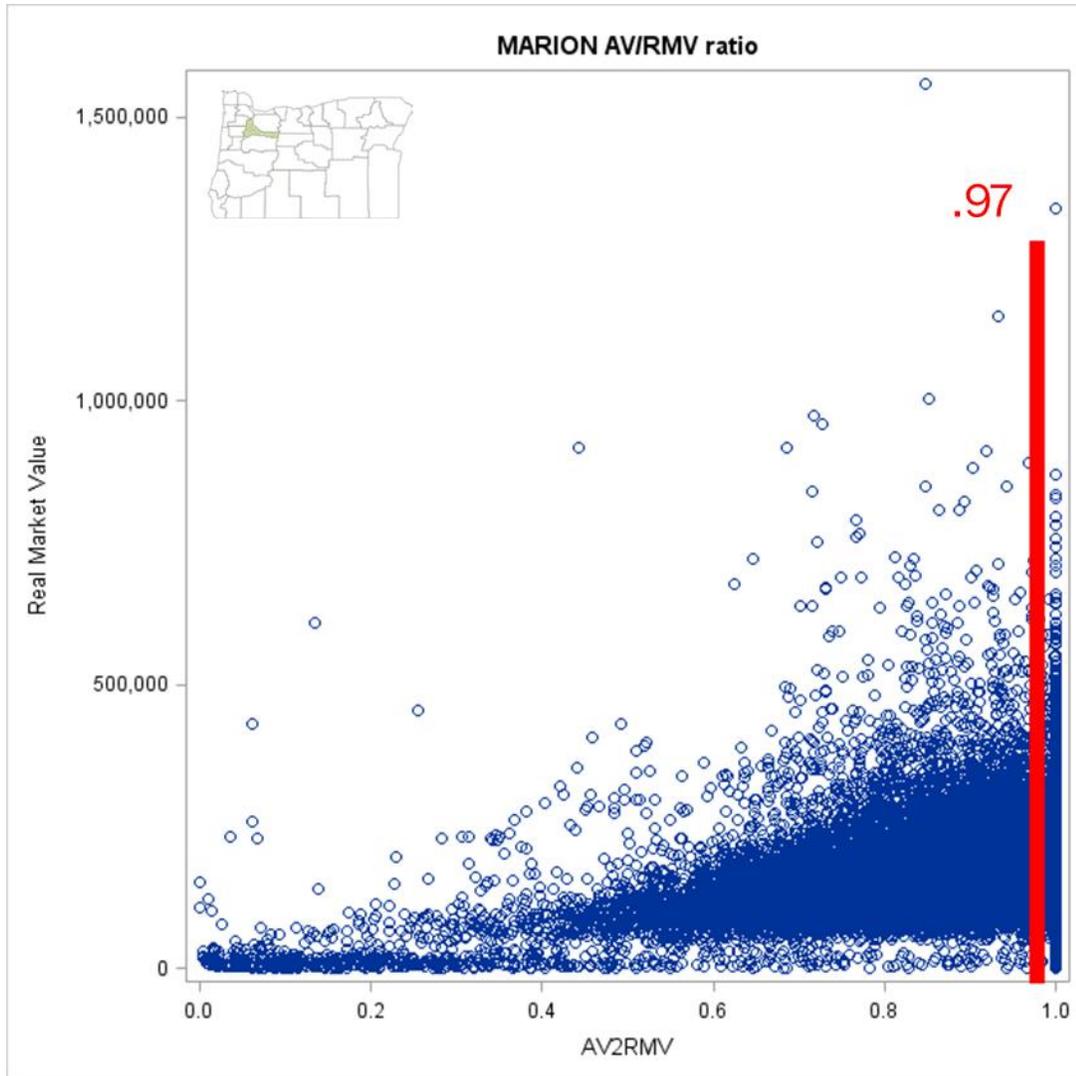
Sold \$387,000 November 2021

Assessed Value \$128K

2021-22 Tax \$2,521



Marion County: AV-to-RMV Ratio 2013 and 2018



Tale of Two Houses – Bend

Not just an older home issue



Built 2006

Market Value \$1.24M

Assessed Value \$656K

2019-20 Tax \$10,168



Built 2010

Market Value \$1.28M

Assessed Value \$1.15M

2019-20 Tax \$17,900

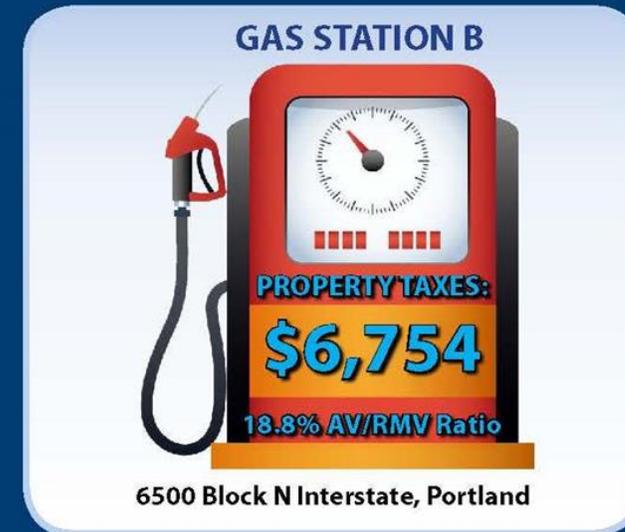
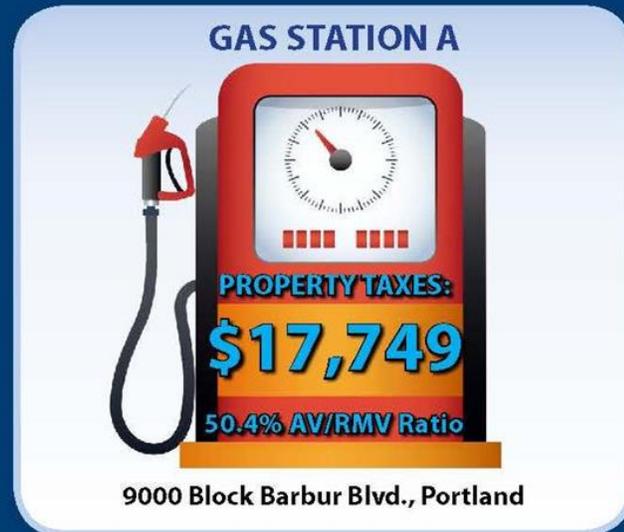


Tale of Gas Stations?

Not just a residential property issue

A Tale of Two Businesses:

Both gas stations have a real market value of approximately \$1.4 million.

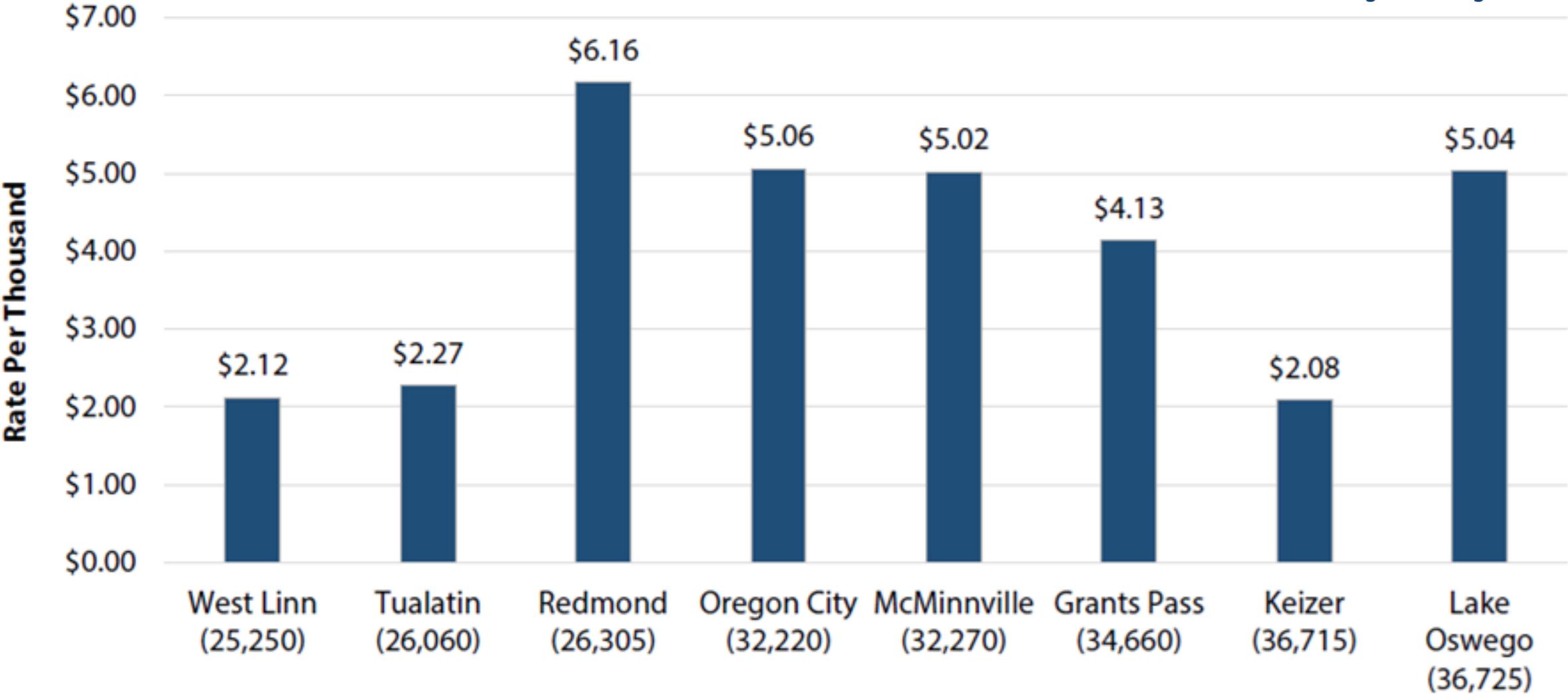


Difference in property taxes paid per year: \$10,995

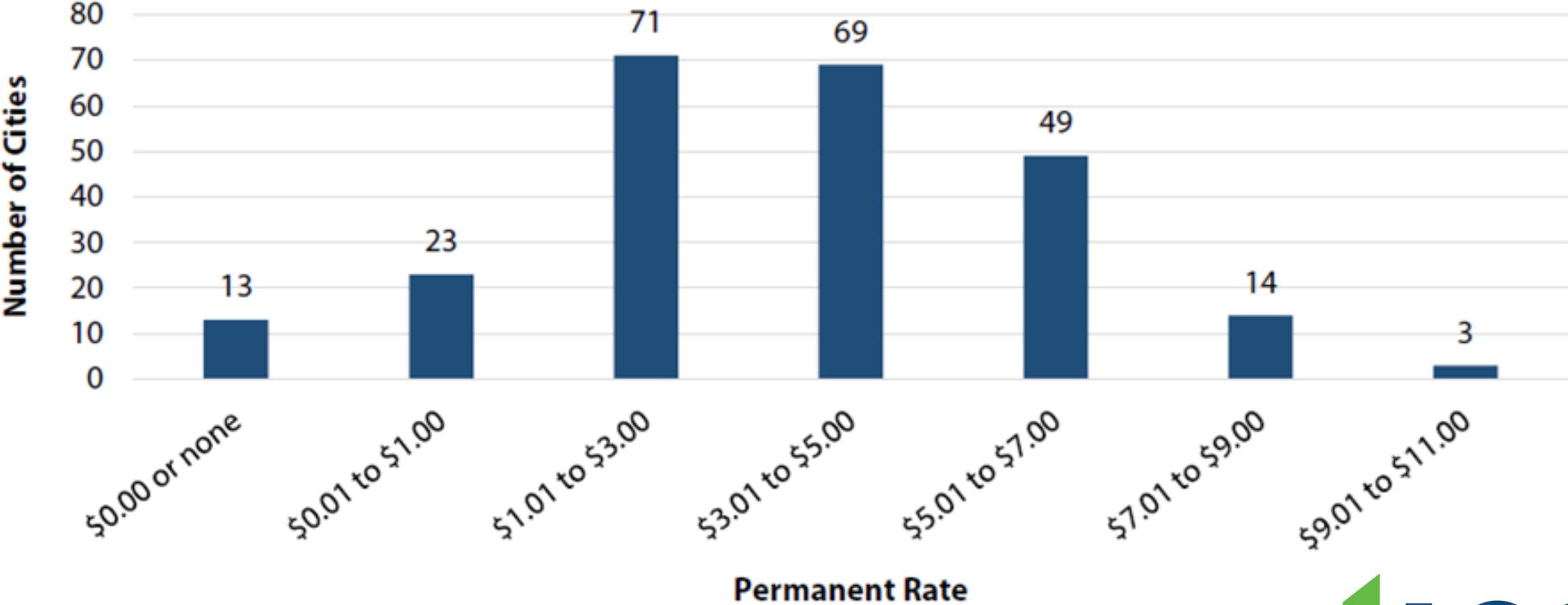
Tax amounts in this example are from 2017 and are based on land and buildings only (personal property is not included).

INEQUITY EXAMPLE - PERMANENT RATES

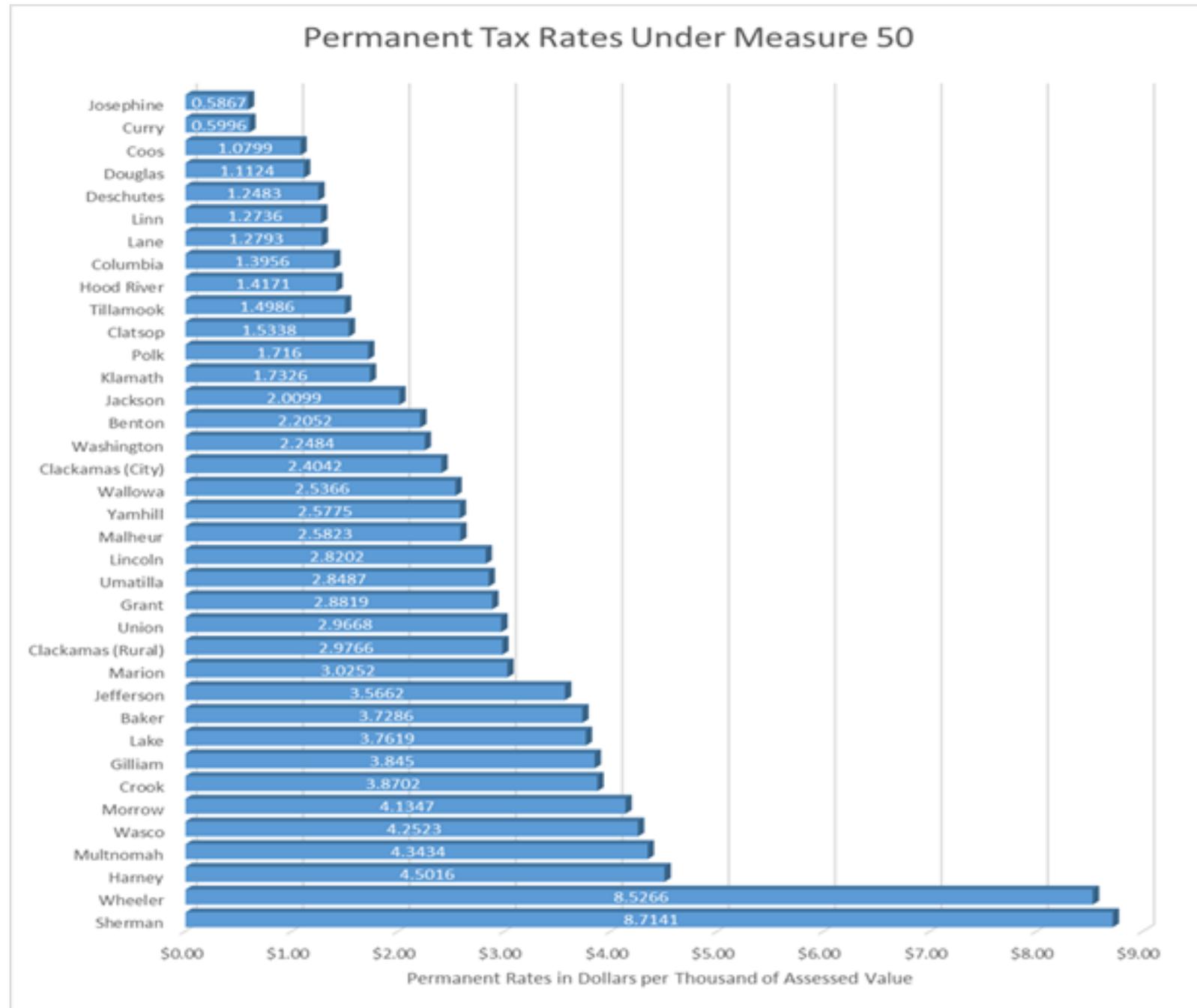
(Cities: Population 25,000 - 40,000)



CITY PERMANENT RATES



Permanent Rates Across All Counties



Compression Means Not All Voters Pay

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 1990'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 is still over the cap, compression affects permanent funding.

As a result of compression, the countywide Oregon Historical Society levy lost about \$955,000 — 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, 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 30 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 Linhares, 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. Governments 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'd 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 organization plans to give it another go next year, says Chris Pick with the LOC.

There will be plenty of time to argue about this and other tax proposals during the session, but addressing the compression problem clearly will involve a difficult trade-off. Is it better to stick with 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 make the 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.

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

How compression affects tax collection

The chart below, created by the city of Portland with 2010 assessments, shows the effects of compression. The "extended" general government tax is calculated by applying the tax rate (\$14 per \$1,000) to the assessed value (AV). The Measure 5 limit is calculated by applying the Measure 5 cap (\$10 per \$1,000) to the real market value (RMV). Compression begins when the "extended" tax exceeds the Measure 5 cap. Local option levies are compressed before permanent levies.

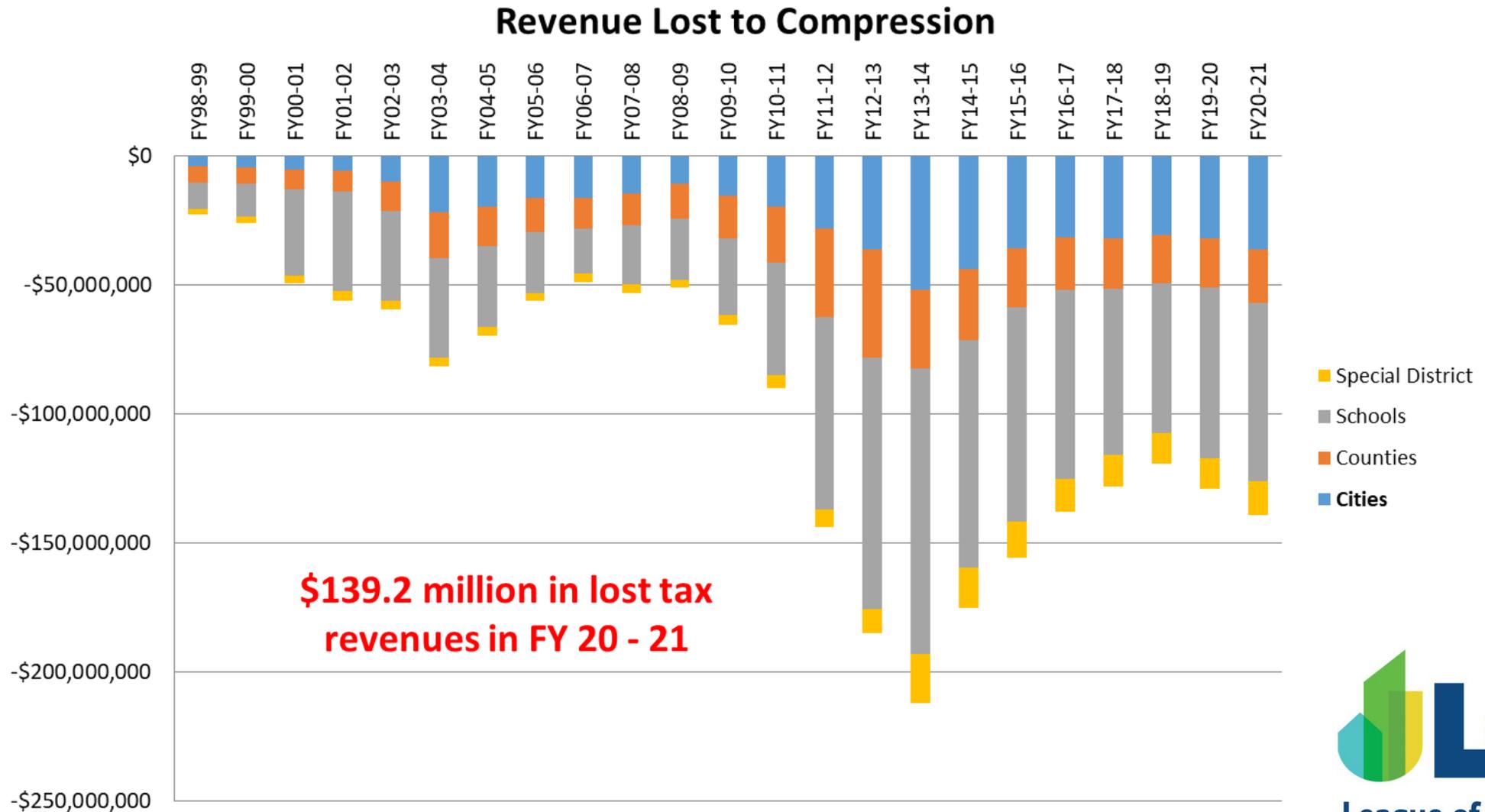
	RMV	AV	Extended general gov. Tax	Measure 5 limit	Local option levy compression loss	Permanent levy compression loss	Total compression loss
House #1	\$300,450	\$115,430	\$1,616	\$3,005	\$0	\$0	\$0
House #2	\$300,020	\$164,080	\$2,297	\$3,000	\$0	\$0	(\$60)
House #3	\$300,310	\$218,800	\$3,063	\$3,003	(\$60)	\$0	(\$514)
House #4	\$300,220	\$251,130	\$3,516	\$3,002	(\$377)	(\$137)	(\$514)

Voters who are already in compression can vote for a local option levy and not pay any additional tax

Twenty-three districts had more than 10% of extended tax compressed, seven districts had more than 20% compressed.



Compression Losses Since 1998-1999



\$139.2 million in lost tax revenues in FY 20 - 21

Cities Anticipate Future Revenue Crunch

Concerned revenues will not keep pace with costs

M50 limits growth of taxable values to 3%, with new construction taxes grow 5% on average statewide

December 2021 LOC city survey

- 37% of cities did not expect future revenues to keep up with costs
- 56% of cities reported an increase in demand for city services

When property taxes fail to keep up with increased costs cities must cut services or find alternative revenue sources

- New fees often disproportionately affect lower income residents



Some Cities Already Forced to Cut Services

Future service disruption likely without revenue reform

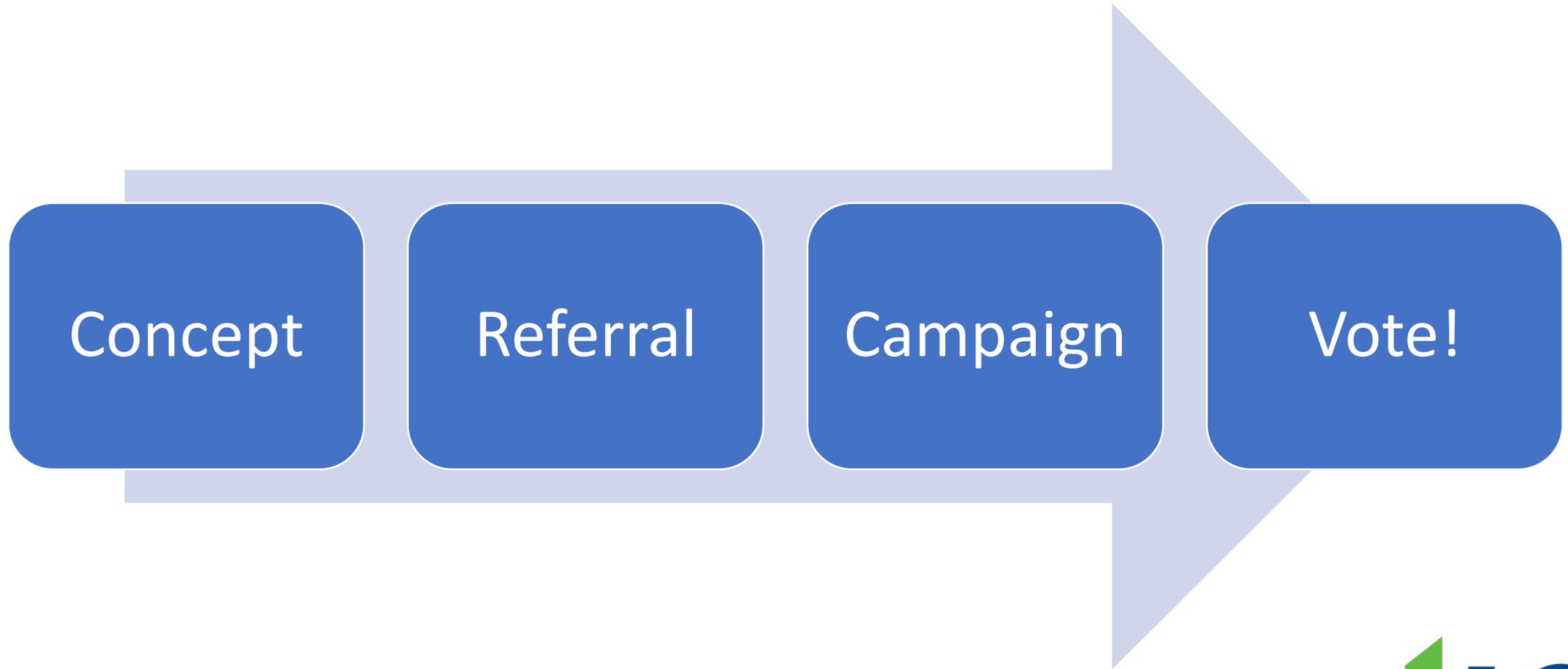
Cities provide a wide variety of services for residents, but not all cities provide all services

- Fire and police protection
- Street maintenance
- Sewer and water treatment
- Land use / building permits
- Libraries
- Parks and recreation
- Housing and social services

Respondents to December 2021 LOC survey reported reduced staffing, services, or hours

- City Hall (17% of responding cities)
- Planning/Permitting (10%)
- Libraries (17%)
- Parks (9%)
- Senior Services (9%)
- Public events/arts/etc. (28%)
- Recreation facilities/activities (19%)

What Would Reform Look Like?



How Would Property Tax Reform Work?

Constitutional versus statutory fix

- Statutory options are limited, significant reform will require a constitutional change

Comprehensive versus incremental reform

- No compression on operating levies would be a big win
- Taxation at market value would be a bigger win

The path to the ballot

- Policy development and coalition building
- Referral by the legislature or signature gathering
- Ballot measure campaign
- The voters decide!



Current Property Tax Reform Polling

Polling effort approved by board went to field January 11 to 18

- 800 voters; plus 200 oversample BIPOC and 200 oversample rural, margin of error 4.4%, 6.3% BIPOC, 4.8% rural

Big takeaways

- Most voters do not recognize issues with property tax system
- Big hill to climb in bringing a successful ballot measure
- Local control options more popular than taking M50 out of constitution entirely
- Educating voters on the issues is effective, especially around unfairness of current system



What Does the LOC Want?

No specific proposal yet, but the LOC board approved the following principles:

- Local choice, equity, fairness, and adequacy

Some ideas starting to float to the top internally

- Will work through the LOC Policy Committee and the LOC Board on any concrete proposals

Will also work with partners in developing anything specific; counties, special districts, schools, foundations, and interest groups

- The LOC wants to be engaged but we know it will be a big table

Next Steps

Continue to support property tax reform

- Focus on inequities and need for local choice

Continue internal and external conversations to build our coalition and develop policy

- Focus groups; funding mostly secured

Work on educating local government staff and elected leaders

- Elected leaders will be critical for ballot campaign

Develop champions at the Oregon Legislature

Secure funding for a professional campaign

Questions?

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