



Property Tax Reform: Voter Control Referral

Description

The League’s proposed constitutional referral would allow local voters to consider a temporary property tax outside of statewide tax caps. The referral would not raise anyone’s taxes, but would empower voters to authorize a tax for local operations.

Background

Under Oregon’s current system, statewide limitations can prohibit local voters from raising their own taxes to support services they demand. Measure 5 limitations restrict general governments (cities, counties and special districts) and schools to levying no more than \$10 and \$5 per \$1,000 of real market value respectively. Any taxes levied in excess of those limitations are reduced until the limitations are met, a process known as compression. Temporary taxes that are in addition to the municipality’s permanent rate and are approved by voters to provide funding for services, such as public safety or school services, are compressed first under this system. As a result, voters residing in a municipality in compression are limited in their ability to raise revenue to support services they desire.

Examples

In numerous communities throughout Oregon, statewide tax caps reduce voter approved levies significantly. In the city of Sweet Home, for example, voters have approved local option levies for police and library services dating back to 1986. In 2010, voters approved the levies again with 60 and 55 percent of the vote respectively. Yet statewide tax limits cut 35 percent of what local voters approved, resulting in public safety and library services not being provided at a level local citizens wanted.

Many voter-approved levies throughout the state are being reduced by even larger percentages. In the West Linn/Wilsonville School District, statewide limits will reduce the collections for the voter-approved levy by 71 percent this year. For the Portland Children’s Levy, revenue is reduced by 51 percent (see Table 1 for additional examples).

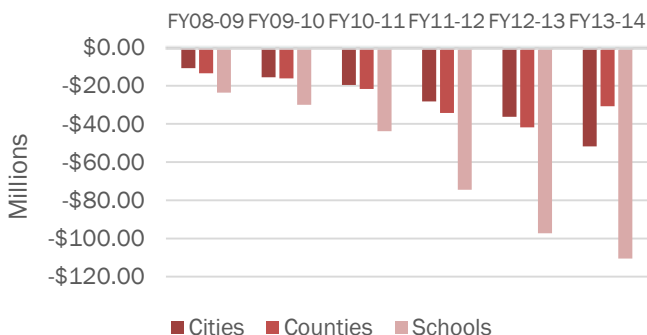
Table 1: Compression on Voter-Approved Levies

	Percentage of revenue lost due to statewide tax caps (2013-14)
Tigard-Tualatin School District	54%
Pendleton School District	42%
Eugene School District	41%
Lake Oswego School District	34%
Beaverton School District	34%
City of Albany public safety levy	34%

Statewide Impacts

Compression is a growing problem for local governments statewide. Since 2008-09, total revenue lost to compression has increased from \$51 million to \$212 million in 2013-14, (see Figure 1). This year 90 percent of school districts, 34 out of 36 counties and more than one-half of all cities have seen property tax revenues reduced due to statewide caps.

Figure 1: Statewide compression losses



Last May (2014), local voters approved 16 of 21 (76 percent) temporary tax measures. While voters may still be concerned about the state of the economy, in many instances they clearly realize the value of local government services and are willing to tax themselves to provide those services. Whether or not any local voters approve temporary taxes outside of compression limitations is irrelevant. What matters is that voters currently do not have the freedom and opportunity to do so.

Description

The League’s second proposed constitutional amendment would reset a property’s assessed value to its real market value at the time of sale or construction. The amendment would not raise taxes on anyone’s current home, but would restore equity by recalibrating taxes based on the market’s valuation of a property at the time of sale—a better measure of a property’s value and an owner’s ability to pay.

Background

Measure 50, passed in 1997, created a new “assessed value” for all properties. Assessed value was initially set at 90 percent of a property’s 1995-96 real market value. For newer properties, a county-wide ratio is applied to determine the initial assessed value. Growth in assessed value is limited to 3 percent annually.

By locking in assessed values based on 1995-96 real market values or a ratio at the time of construction, and by capping annual growth, huge disparities in tax bills have emerged as property values have changed at different rates.

Examples and Impacts

Homeowners in inner North and Northeast Portland, for example, often have property tax bills that are one-third or one-fourth of what homeowners with similar real market values pay across town. The reason is simple. In the early and mid-1990s, large swaths of North and Northeast Portland had lower market values, and those values still determine the taxes owed despite the rapid rise in home values (See Table 1).

These significant inequities in property taxes can play a role in the real estate market as well. An analysis conducted by the Northwest Economic Research Center found that property owners selling similar homes in disparate neighborhoods could attribute between \$9,300 and \$45,000 in their property’s potential sale price to the quirks of Oregon’s property tax system.

The authors wrote that Oregon’s property tax system creates a hidden subsidy for those property owners with lower taxes and shifts the burden of local services onto others.

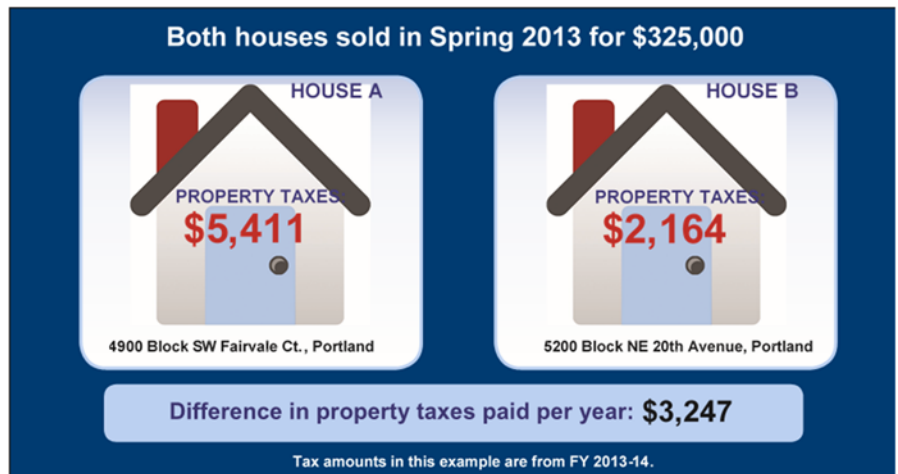
While the analysis focused on Portland, the authors said they would expect to find these results in other Oregon cities in which there has been uneven growth in home values since the 1990s.

Priority

Seventeen other states have property tax limitations similar to Oregon’s. Of those, 15 readjust property taxes at the time of sale. Oregon’s existing system, according to a Lincoln Institute of Land Policy report, “has gone the farthest of any [in the country] in breaking the link between property taxes and property values.”

Resetting assessed value to real market value at the time of sale would reestablish the link between market values and property taxes, and improve the fairness of Oregon’s system.

Table 1: Tax inequities between two neighborhoods in Portland





Property Tax Reform: Changed Property Tax Ratio

Description

The League's priority regarding property taxation changes the way new property is added to the tax rolls. This proposal, unlike the other two, would only require a statutory change, meaning the measure would not have to be referred out to voters in order to become law.

Currently, new or improved property is added to the tax rolls by applying an annual county-wide ratio of assessed values (AV) to real market values (RMV) to the new or improved property in an attempt to replicate the property tax discount given to properties via Measure 50. The ratio is calculated and applied to specific property classes (residential, multifamily, commercial, etc.).

However, significant variation between AV and RMV exists within a county, resulting in a discount that is often overly generous when compared to neighboring properties. In addition, the discount is out of line with what was originally offered to properties when Measure 50 passed in 1997.

As a result, similarly situated and valued properties can have significantly different property tax liabilities.

Background

The situation in Multnomah County is illustrative. The county is home to a number of cities, and the property values in each have not grown uniformly since Measure 50's passage in the mid-1990s. Consequently, the ratio of assessed value to real market value in each city varies, but the countywide average is applied to all new properties.

For example, the Multnomah County changed property ratio this year for residential property was roughly 70 percent. This means a home valued at \$200,000 will appear on the tax roll with an assessed value of \$140,000.

However, in Gresham, the average ratio is closer to 90 percent, meaning that the average \$200,000 home within the city limits has an assessed value of \$180,000. Meanwhile in Portland, the average ratio is about 64 percent, so a \$200,000 home has an assessed value of \$128,000. For the city of Gresham, the property tax discount given to new property is overly generous compared to what existing properties are paying in the city. Because of this, current Gresham residents are subsidizing the services for new properties.

Priority

The League will advocate for legislation to provide the option of applying a city-wide changed property ratio to new property.