Property Tax Reform

Bringing fairness and local choice to local governments’ top revenue source.

OCCMA Summer Conference
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Introductions

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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 budget ÷ market value in district = 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

Pre-Measure 5: Levy System

M5: Hybrid

M5 & M50: Rate System

Source – Legislative Revenue Office
Current System Under Measures 5 and 50

- **M50 Assessed Value**
- **Market Value**
- **Total Rates**
- **M5 Rate Limits**
- **Tax Extended**
- **Maximum Tax** (excludes bonds)
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

(2019-20, Residential)

Distribution of AV2RMV by CO

County Code

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

League of Oregon Cities
Which Communities Benefit?
Measure 50 benefits are not shared equally across races
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.

GAS STATION A
PROPERTY TAXES: $17,749
50.4% AV/RMV Ratio
9000 Block Barbur Blvd., Portland

GAS STATION B
PROPERTY TAXES: $6,754
18.8% AV/RMV Ratio
6500 Block N Interstate, Portland

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)

<table>
<thead>
<tr>
<th>City</th>
<th>Population</th>
<th>Rate Per Thousand</th>
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</thead>
<tbody>
<tr>
<td>West Linn</td>
<td>25,250</td>
<td>$2.12</td>
</tr>
<tr>
<td>Tualatin</td>
<td>26,060</td>
<td>$2.27</td>
</tr>
<tr>
<td>Redmond</td>
<td>26,305</td>
<td>$6.16</td>
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<tr>
<td>Oregon City</td>
<td>32,220</td>
<td>$5.06</td>
</tr>
<tr>
<td>McMinnville</td>
<td>32,270</td>
<td>$5.02</td>
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<tr>
<td>Grants Pass</td>
<td>34,660</td>
<td>$4.13</td>
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<tr>
<td>Keizer</td>
<td>36,715</td>
<td>$2.08</td>
</tr>
<tr>
<td>Lake Oswego</td>
<td>36,725</td>
<td>$5.04</td>
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</table>
Permanent Rates Across All Counties
# City of Lebanon Tax Rate Example

<table>
<thead>
<tr>
<th>District</th>
<th>School</th>
<th>Non-School</th>
<th>Local Option</th>
<th>Bonds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Linn County</td>
<td>$</td>
<td>$1.1330</td>
<td>$ 2.8300</td>
<td>$</td>
<td>$3.9630</td>
</tr>
<tr>
<td>LBL ESD</td>
<td>0.2715</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.2715</td>
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<tr>
<td>LBCC</td>
<td>0.4467</td>
<td>-</td>
<td>-</td>
<td>0.1614</td>
<td>0.6081</td>
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<tr>
<td>Lebanon School</td>
<td>4.4404</td>
<td></td>
<td></td>
<td>1.5158</td>
<td>5.9562</td>
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<tr>
<td>Lebanon City</td>
<td>-</td>
<td>4.5930</td>
<td>-</td>
<td>1.1875</td>
<td>5.7805</td>
</tr>
<tr>
<td>Lebanon City URD (5)</td>
<td>-</td>
<td>0.5434</td>
<td>-</td>
<td>-</td>
<td>0.5434</td>
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<tr>
<td>Lebanon RFD</td>
<td>-</td>
<td>2.0103</td>
<td>-</td>
<td>0.2849</td>
<td>2.2952</td>
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<tr>
<td>Lebanon Aquatic</td>
<td>-</td>
<td>0.2138</td>
<td>-</td>
<td>-</td>
<td>0.2138</td>
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<tr>
<td>4H Extension</td>
<td>-</td>
<td>0.0624</td>
<td>-</td>
<td>-</td>
<td>0.0624</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$5.1586</td>
<td>$8.5559</td>
<td>$ 2.8300</td>
<td>$ 3.1496</td>
<td>$19.6941</td>
</tr>
</tbody>
</table>

AV = 1,229,268,001  
RMV = 2,345,768,298  
Owner of a $250K home pays: $4,923.53  
City's Share: $1,580.98  
32.11%
Comparator Property Tax Rates

Lebanon Comparator City Tax Rates

- Permanent Tax Rate Levied
- Local Option Tax Rate Levied
- Bond Rate Levied
Compression Means Not All Voters Pay

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

Revenue Lost to Compression

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

Special District
Schools
Counties
Cities

League of Oregon Cities
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?

Concept  Referral  Campaign  Vote!
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 in 2020:

- 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 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
What We Covered Today

PROPERTY TAX HISTORY

OUR CURRENT SYSTEM

HOW IT’S WORKING

REFORM
Questions?

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