



# City Club of Portland

Good citizens are the riches of a city

## Oregon's Property Tax System

Comprehensive Study Charge  
December 2012

Approved for Study  
by the Board of Governors on November 12, 2012

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## **BACKGROUND**

Several southern Oregon counties are facing bankruptcy as federal timber payments end. Multnomah County's budget for this year marks the 12<sup>th</sup> consecutive year of service cuts. Local governments statewide are feeling the strain as property tax revenues fail to keep up with the cost of providing essential services, while property owners complain about rising property tax bills despite falling property values.

Oregon's State government is largely funded by personal income and corporate excise taxes; local governments and schools receive funding from property taxes. Governor Kitzhaber in his 2012 State of the State address said that revenue reform was high on his agenda. Tax reform conversations often focus on a state sales tax or changes to the Personal and Corporate Income Tax Kickers with the property tax system and its impact on local governments given less attention.

Property taxes provide funding to more than 1,200 municipal corporations including counties, cities, school districts, community colleges and special districts. For many jurisdictions, property taxes provide the bulk of revenue.

Before 1990, property taxes often increased 6 percent or more each year because the taxing authority of most districts was allowed to increase 6 percent annually, and voters often approved additional levies. Rising property tax bills led to a taxpayer revolt in the form of a ballot initiative known as Measure 5, passed in 1990. Measure 5 both capped property taxes at 1.5 percent of market value and put in a place a new system for education funding that primarily shifted funding from the local to the state level and placed more reliance for education funding on state income taxes. In 1996, still facing rising property values and rising property taxes, the voters passed Measure 47, limiting increases in assessed property values. The legislature corrected some problematic language in Measure 47 and submitted the new Measure 50 to the voters in 1997, when it passed easily with more than 55 percent of the vote.

Specifically, Measure 5 limited property taxes by capping property tax rates at 1.5 percent, or \$15 for each \$1,000 on the real market value of a property.

(Taxes for the repayment of bonds are not capped.) Of the \$15 per \$1000 of real market value:

- Up to \$5 applies to education taxes, for public school districts, education service districts, and community colleges.
- Up to \$10 applies to “general government” revenues, essentially all non-education uses.

Measures 47 and 50 further limited the growth of property taxes by calculating the taxes against an assessed value rather than real market value, and capping the growth of that assessed value at 3 percent per year.

Many taxing districts in the state raise additional revenues through temporary local option levies, in effect for up to five years for operations. Measure 47 required a “double majority” to pass such levies, which required that any local measure proposing to increase property taxes (except for those measures on the ballot at the biennial general election in November of even-numbered years) receive not only a majority of the votes cast, but that a majority of registered voters also participate in the election. In 2008, a legislatively-referred amendment to the Oregon Constitution (Measure 56) was enacted by voters, allowing a property tax measure decided at May and November elections to be decided by a majority of voters who are voting, effectively repealing the double majority requirement included in Measures 47 and 50.

Measure 5’s capped property tax rates result in a phenomenon known as “compression,” which occurs when the total tax rate (including local option levies but excluding bonds) times the assessed value of a property exceeds the Measure 5 limits (\$5 for education and \$10 for general government). The amount collected by taxing jurisdictions is “compressed” until the total tax amount is within the \$5 or \$10 limit. Local option levies are compressed first, and permanent operation levies are then compressed proportionally. Compression is calculated on a property-by-property basis. As a result, a given property may pay little or nothing on a local option levy while another property across town pays the full amount of a local option levy.

Compression increases during period of stagnant or falling property values, as the Measure 5 cap on a given property’s market value stays the same or falls while the assessed value may continue to rise.

The citizen-led measures had the effect of reducing Oregon’s property tax burden for most taxpayers, at the expense of heavier reliance on the income tax, a more volatile source for funding government services. The resulting property tax system is also riddled with inequities between communities and even between property owners in the same community.

## ISSUES AND CHALLENGES

### Equity.

Measure 50's de-coupling of real market value and assessed value and capping the growth of assessed value has resulted in significant inequities in property tax bills between taxpayers, even within the same community. For example, in areas experiencing rapid growth in market value, such as North and Northeast Portland, homes may have an assessed value of 15 percent to 25 percent of the real market value, while in other areas of Portland residential properties may have an assessed value that is over 80 percent of real market value.

Measure 5 had the effect of leveling state funding for education at a certain dollar amount per student, but did nothing to adjust the underlying property tax rates for education, which continue to vary across the state. For example, taxpayers in Klamath Falls pay a school district rate of \$3.11 per \$1000 of assessed value while taxpayers in Rainier School District pay \$5.43, but both receive the same number of dollars per student after the State picks up the rest.

Compression results in residents of the same city paying different rates on local option levies, with some taxpayers paying nothing. Despite falling property values, many taxpayers have experienced annual increases in their property tax bills as the assessed value increases by three percent.

### Stability.

Measure 50's de-coupling of assessed value and real market value buffered most local governments in Oregon from revenue reductions when real market values plunged during the recent recession. Local option levies, however, raise less revenue when property prices stagnate or fall because compression increases. These voter-approved local option levies have been used to shore up budgets for public safety and schools, and are the only mechanism for many local governments to raise additional revenue.

### Sufficiency.

Revenue growth for local governments is slowed by the 3 percent annual increase in the assessed value of existing properties and has not kept pace with the growth in the cost of providing services. This is exacerbated during recessionary times when demand for services rises while property prices stagnate, resulting in local option levies raising lower revenues due to compression.

### Competition between Local Governments.

Because Measure 5 compresses local government levies that exceed \$5 (education) and \$10 (general government), addition of new permanent

levies can reduce existing permanent levies. Permanent operating levies take precedence over temporary local option levies when calculating compression. For example, the November 2012 measure for the Multnomah County Library created a new taxing district with permanent levy authority. The library's previous property tax levy was a local option, and therefore compressed before any compression in permanent operating rates (and proportionally along with the two other levies: The Oregon Historical Society and the Portland Children's Levy); the new taxing district's permanent rate will have priority over the Historical Society and Children's levies.

Urban renewal collections come out of the tax collections for overlapping taxing jurisdictions, creating great contention between cities and their counties, cities and fire districts and other special districts.

Measure 5 means that an increase in the levy authority of one taxing district can restrict the property tax collections of another taxing district (when the total category tax rate exceeds the Measure 5 limits).

#### Complexity.

Oregon's property tax system and the specific tax limitations of Measures 5 and 47/50 are poorly understood. The funding mechanism for urban renewal agencies, tax increment financing, adds additional complexity.

The overlay and interplay between the tax limitations of Measure 5, the limitations on tax growth of Measures 47/50, and the implementation of tax increment financing for urban renewal result in a system too complex to be understood by taxpayers, voters, and often even elected officials. Focusing on any one part of the property tax system without the larger context can obscure other inequities. Compression, for example, can result in certain taxpayers paying little or nothing on a new local option levy because their assessed value to real market value ratio is high. On its face, this seems like an injustice to the neighbor with a house that has the same real market value, but a lower assessed value to real market value ratio, who would pay the entire amount of the local option levy. However, the property owner with the low assessed value to real market value ratio is already paying a lower tax bill on a home with the same real market value.

### **STUDY OBJECTIVES**

The committee is charged with examining the history and current state of the Oregon property tax system, and with recommending improvements for the future. The objectives are: 1) researching the evolution of the Oregon property tax system, 2) understanding and explaining the current implementation of the

property tax system, 3) evaluating the pros and cons, and 4) identifying any improvements that could be made.

The committee must consider the principles identified in the City Club's 2002 comprehensive study, *Tax Reform in Oregon*. Those principles include fairness, sufficiency, certainty, clarity, efficiency and neutrality.

## **SCOPE**

The scope of the study assumes that property taxes will continue to be a significant component of funding for local governments. While the committee is encouraged to identify the merits and disadvantages of the property tax, the committee's recommendations should focus on improvements to the property tax system rather than alternative tax sources.

## **TENTATIVE REPORT OUTLINE**

- Executive Summary
  - Composition of committee
  - Summary of study charge
  - Method employed
  - Summary of conclusions and recommendations
- Background
  - Property tax system pre Measures 5 and 47/50
  - Political climate leading to Measures 5 and 47/50
  - Implications of Measures 5 and 47/50
- Discussion
  - Identification of issues needing attention
  - Identification and evaluation of possible actions to address them
- Conclusions
- Recommendations
  - Identify who needs to act, what they need to do and when, and the expected outcomes

## **TIME FRAME**

Comprehensive studies should take 12 months from the time of the first meeting of the Study Committee to the vote of the membership on the report. The Research Board must approve any exceptions to this time frame.