Oregon’s Property Tax

Legislative Revenue Office
January 2009
Overview of Oregon’s Property Tax

• History and Significance
• Measure 5 and Measure 50
• Statistics and Trends
  – By type of tax
  – By type of district
• Property Assessment
  – Properties subject to taxation
  – Exemptions and special assessments
  – Compression due to Measure 5 limits
• Urban Renewal – Division of Tax and Special Levy
Property Taxes and Oregon

- Oregon’s property tax system is one of the most important sources of revenue for the public sector in Oregon
- This source raised $4.470 billion for local governments in fiscal year 2007-08
- Only state personal income tax collections exceed property tax collections as a source of state and local tax revenue
Useful Definitions

• Real Market Value (RMV) - the amount in cash which could reasonably be expected by an informed seller acting without compulsion, from an informed buyer acting without compulsion, in an “arms-length” transaction during the period for which the property is taxed

• Assessed Value (AV) – Value of property subject to taxation
Measure 5 (M5)

- The structure of the property tax changed very little until the 1990s, when two statewide ballot measures dramatically altered the system.
- Measure 5, which introduced property tax rate limits, was passed in 1990 and became effective starting in the 1991-92 tax year.
- When fully implemented in 1995-96, Measure 5 cut property tax rates an average of 51 percent from their 1990-91 levels.
Measure 50 (M50)

• Measure 50, passed in 1997,
  - Cut property taxes,
  - Introduced assessed value (AV) growth limits, and
  - Replaced most tax levies with permanent tax rates*

• It transformed the system from one primarily based on levies to one primarily based on rates

• When implemented in 1997-98, Measure 50 cut effective tax rates an average of 11 percent from their 1996-97 levels

*permanent rate = maximum rate without voter approval
A Quick Cheat Sheet on Limits

• Measure 5 (M5 limits)
  - $5 per $1,000 real market value (RMV) for schools
  - $10 per $1,000 RMV for general government taxes
  - Applied only to operating taxes, not bonds
  - For each property, school taxes and general government taxes compared to their limits respectively

• Measure 50 (M50 limit)
  - Assessed value (AV) for 1997-98 was set (at 90% of 1995-96 AV for each property) and permanent rates were established for taxing districts
  - Annual growth of AV limited to 3% for existing property
  - For new property, AV = (RMV) times (AV/RMV of similar property)
## Summary of Oregon Property Values and Taxes Imposed

### Exhibit 1

<table>
<thead>
<tr>
<th>Summary of Oregon Property Values and Taxes Imposed ($ million)</th>
<th>2006-07</th>
<th>2007-08</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Market Value</td>
<td>434,293.4</td>
<td>501,124.9</td>
<td>15.4%</td>
</tr>
<tr>
<td>Total Assessed Value</td>
<td>265,218.9</td>
<td>280,453.8</td>
<td>5.7%</td>
</tr>
<tr>
<td>Net Assessed Value</td>
<td>257,373.8</td>
<td>271,199.8</td>
<td>5.4%</td>
</tr>
<tr>
<td>Operating Taxes</td>
<td>3,314.9</td>
<td>3,582.9</td>
<td>8.1%</td>
</tr>
<tr>
<td>Bond Taxes</td>
<td>597.7</td>
<td>696.1</td>
<td>16.5%</td>
</tr>
<tr>
<td>Total District Taxes</td>
<td>3,912.6</td>
<td>4,279.0</td>
<td>9.4%</td>
</tr>
<tr>
<td>Urban Renewal Taxes</td>
<td>164.8</td>
<td>191.4</td>
<td>16.1%</td>
</tr>
<tr>
<td>Total all Taxes</td>
<td>4,077.4</td>
<td>4,470.4</td>
<td>9.6%</td>
</tr>
</tbody>
</table>
AV and Taxes Imposed

• Total AV has been increasing substantially more than 3% annually when limited to 3% growth
  ➢ 3% growth limit applies to Individual property’s AV
  ➢ New construction, property improvement, etc. add AV

• Operating taxes
  ➢ Taxes from permanent rates fund general operating budgets

• M5 limits – depending on type of taxes
  ➢ Subject to limit – permanent rate, local option, gap bond, pension levy, urban renewal plan taxes
  ➢ Not subject to limit – bond levies for capital construction
District

- A local government entity that imposes property taxes
- A district can include multiple taxing districts - e.g., City of Salem includes taxing districts representing the portions of the city located in Marion and Polk counties
- School (K-12), Education Service District (ESD), city, county, community college, special district
- Special district includes service, port, fire, park, water control, library, transit, public utility, etc.
### Exhibit 2a

2007-08 Property Taxes Imposed by Type of District ($ Million)

<table>
<thead>
<tr>
<th>Type of District</th>
<th>Amount ($ Million)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12 &amp; ESDs</td>
<td>1,817.3</td>
<td>42%</td>
</tr>
<tr>
<td>Counties</td>
<td>832.7</td>
<td>19%</td>
</tr>
<tr>
<td>Cities</td>
<td>969.5</td>
<td>23%</td>
</tr>
<tr>
<td>Community Colleges</td>
<td>165.6</td>
<td>4%</td>
</tr>
<tr>
<td>Special Districts</td>
<td>493.7</td>
<td>12%</td>
</tr>
</tbody>
</table>
Property Taxes by Type of Tax

Exhibit 2b
2007-08 Property Taxes Imposed by Type of Tax
($ Million)

- Permanent Rate/Gap: 3,417.2 (77%)
- Bond: 603.2 (13%)
- Urban Renewal Agencies: 191.4 (4%)
- Local Option: 258.7 (6%)
### Type of Property Taxes Imposed by Type of District (2006-07 and 2007-08)

**Exhibit 3**

Type of Property Taxes Imposed, 2006-07 and 2007-08

By Type of District (Millions of Dollars)

<table>
<thead>
<tr>
<th>Type of District</th>
<th>Permanent Rate/Gap</th>
<th>Local Option</th>
<th>Bond</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counties</td>
<td>639.5</td>
<td>695.7</td>
<td>8.8%</td>
<td>64.6</td>
</tr>
<tr>
<td>Cities</td>
<td>803.4</td>
<td>854.5</td>
<td>6.4%</td>
<td>65.4</td>
</tr>
<tr>
<td>K-12 &amp; ESDs</td>
<td>1,278.5</td>
<td>1,349.1</td>
<td>5.5%</td>
<td>35.7</td>
</tr>
<tr>
<td>Community College</td>
<td>117.2</td>
<td>123.8</td>
<td>5.7%</td>
<td>0.0</td>
</tr>
<tr>
<td>Special Districts</td>
<td>357.6</td>
<td>394.1</td>
<td>7.2%</td>
<td>27.3</td>
</tr>
<tr>
<td>Total District Taxes</td>
<td>3,206.3</td>
<td>3,417.2</td>
<td>6.6%</td>
<td>193.0</td>
</tr>
<tr>
<td>Urban Renewal Agencies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Permanente Rate Gap Rate:
- 8.8% from 2006-07 to 2007-08
Assessed and Real Market Value of Property in Oregon

Exhibit 4
Assessed and Real Market Values of Property in Oregon

Value ($ Billion)


- Real Market Value
- Assessed Value
Property Taxes Imposed 1967-68 to 2007-08 ($ million)

Exhibit 5
Property Taxes Imposed 1967-68 to 2007-08
($ million)
Property Values and Tax Rate

Average Tax Rate = Property Tax / AV
Property Taxes as Share of Oregon Personal Income

Exhibit 6
Property Taxes as Share of Oregon Personal Income*

*Personal Income from U.S. Bureau of Economic Analysis
Relative Property Tax Burden
(Fiscal Year 2005-06)

<table>
<thead>
<tr>
<th>REVENUE CATEGORIES</th>
<th>$ PER PERSON</th>
<th>RANK AMONG THE STATES</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL TAXES</td>
<td>$3,360</td>
<td>34</td>
</tr>
<tr>
<td>PERSONAL INCOME TAX</td>
<td>$1,500</td>
<td>5</td>
</tr>
<tr>
<td>CORPORATE INCOME TAX</td>
<td>$133</td>
<td>32</td>
</tr>
<tr>
<td>PROPERTY TAX</td>
<td>$998</td>
<td>30</td>
</tr>
<tr>
<td>GENERAL SALES TAX</td>
<td>0</td>
<td>47*</td>
</tr>
<tr>
<td>SELECTIVE SALES TAXES</td>
<td>$292</td>
<td>45</td>
</tr>
<tr>
<td>OTHER TAXES</td>
<td>$437</td>
<td>13</td>
</tr>
</tbody>
</table>

Note: The higher the rank is, the higher the relative burden is among states.
Property Assessment

• Appraisal – the process of identifying and assigning a value to it

• Who does appraisal?
  ➢ County assessors – most property in Oregon
  ➢ Oregon Department of Revenue (DOR) – Certain large industrial sites and utility property

• Property subject to taxation
  ➢ All privately owned real property (e.g., land, buildings, fixed machinery and equipment)
  ➢ Manufactured homes
  ➢ Personal property used in business
Property Assessment - continued

• Property not subject to taxation
  ➢ Household furnishings, personal belongings and automobiles, crops, orchards, business inventories
  ➢ Certain intangible property (stocks, bonds, bank accounts, etc.)

• Exemptions and Reduced assessment (examples)
  ➢ Exempted - Most property used for religious, fraternal, and governmental purposes
  ➢ Reduced assessments in
    ➢ Open space, farmland, forestland, historical buildings
    ➢ Properties owned by disabled veterans
Tax Expenditure FY 2009-11
Exemptions and Special Assessments

• **Full exemption** — e.g., Intangible personal property $12.426 billion, Federal, state, local property $3.352 billion, Personal property for personal use $0.913 billion, Motor vehicles and trailers $0.884 billion, Business inventory $0.640 billion, etc.

• **Partial exemption** — e.g., Strategic Investment Program (SIP) $103.9 mil, Properties owned by disabled veterans $24.0 mil, Historical property $19.8 mil, Nonprofit low income rental housing $11.7 mil, etc.

• **Special assessment** — e.g., Farmland $262.4 mil, Private forestland $57.1 mil, etc.
Property Tax Compression

• Compression – process used to reduce property taxes to the M5 limits, $5/$1000 RMV for school, $10/$1000 RMV for non-school general government
  ➢ For each property, school taxes and general government taxes compared to their limits respectively
• Limits apply to operating taxes, not bonds
• If exceeding M5 limits, compression starts in a specific order, beginning with local option taxes
• Compression loss
  ➢ Wide range across counties
  ➢ State total = $53.2 mil for 2007-08, up from $48.8 mil in 2006-07
Urban Renewal Agency

- Oregon Revised Statute (ORS) Chapter 457 gives each city and county the ability to activate an urban renewal (UR) agency.
- UR agency has power to propose, and act on plans to eliminate/remedy/prevent/conserve/rehabilitate “blighted areas” when approved by the city or the county.
- Substantial funding of most UR plans comes from portions taken out of local government property tax levies (they are called division of tax revenue) – for 2007-08, $158.6 mil out of $191.4 mil total UR revenue were division of tax revenue.
Urban Renewal Revenue
Division of Tax vs. Special Levy

• On top of division of tax revenue, many UR plans adopted before December 6, 1996 may raise revenue via UR levy (called special levy revenue)

• Division of tax is calculated by splitting local government property taxes between local governments and the UR agency

• The split is recalculated every year based on value growth within the plan area

• Both division of tax and UR special levy are subject to the general government tax limitation (that is, M5 limits)