



# Property Taxes

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## Priority

The League seeks passage of a comprehensive property tax reform package to address an outdated and inequitable system.

## Background

Property taxes are the largest source of tax revenue for cities, with \$1.2 billion collected in FY 2014-15. Property taxes play a vital role in funding the essential services that cities provide, including police, fire, roads, parks and more. They are also a key revenue source for counties, special districts and school districts--providing approximately one-third of the state's education budget (\$2.4 billion in 2014-15).

As provided in the Oregon Constitution, property taxes are regulated largely by Measure 5 (1990) and Measure 50 (1997). Measure 5 instituted limits on the amount of tax that can be levied per \$1,000 of a property's real market value (RMV) to 1.5 percent. Specifically, those limits (caps) are \$5 per \$1,000 for revenues used for education services, and \$10 per \$1,000 for revenues used for general government. If the tax to be extended is greater than these caps, the difference is reduced (compressed) and not collected. Measure 5 limits are now more than 25 years old and 60 percent of cities (147 of 241) have exceeded the limits, resulting in the reduction of their voter-approved levies. Many more cities are very close to the limits and simply opt not to refer a levy.

Measure 50 added another layer of limits by establishing permanent tax rate restrictions on all property taxing jurisdictions. Permanent rates for cities range from \$0 to \$10.62, with an average of \$3.55. Those rates can only be exceeded by passage of a bond levy (limited to capital projects) or a local option levy. However, local option levies are subject to the Measure 5 limits, and cities often find they are competing with other local government taxing jurisdictions as the total is capped at \$10 per \$1,000 on RMV.

Measure 50 also applied tax rates to assessed value (AV), which was originally established by taking a property's real market value in 1995-96 and discounting it by 10 percent. Then, Measure 50 capped annual growth on the established AV at 3 percent, no matter the changes in RMV. New or improved property is added to tax rolls by multiplying the real market value by an annual county-wide ratio of assessed values to real market values in an attempt to replicate the property tax discount given via Measure 50. The complex AV system has resulted in significant inequities—tax bills can differ by thousands of dollars for properties that have the same real market value in the same city. In addition, the gap between AV and RMV has grown from the original 10 percent discount to a state average of a 25 percent discount because assessed value continues to grow at a slower rate than RMV.

Over the years, the Legislature has also expanded and created new property tax exemptions in all categories. These exemptions have not been systematically reviewed to ensure that the benefit to taxing jurisdictions justifies annually foregoing the tax revenues that pay for the services provided to the entities receiving the exemptions. The revenue loss attributed to the 132 available exemptions and special assessments is estimated at \$25.9 billion for the 2015-17 biennium.

Review and reform of Measures 5 and 50 and the exemptions will likely be part of comprehensive property tax reform discussions in the 2017 session, along with general state and local tax reform. The Legislature has been interested in returning to a real market value property tax system to restore equity in taxes on similarly valued property. In addition, the Legislature has expressed interest in providing a new partial homestead exemption for primary residences to make property taxation more progressive and temper tax increases caused by returning to a real market value system.

## Outcome

Passage of a legislative referral making the following Constitutional changes:

- Achieve equity through a transition to a real market value-based property tax valuation system and away from the assessed value system of Measure 50; and
- Restore choice by allowing local voters to adopt tax levies and establish rates outside of current constitutional limits in their taxing jurisdictions.

Passage of a companion bill making statutory modifications to the existing property tax system to enhance fairness and adequacy. These changes would include but are not limited to:

- Adjust how new or improved property is added to the tax rolls and is assessed;
- Remove or adjust the 3% discount given to property owners who pay their taxes by November 15; and
- Adjust property tax exemption criteria.