Testimony to the Senate Finance & Revenue Committee
SJR 27, April 28, 2015
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Chair Hass and Committee Members:

I would like to offer partial support for SJR 27. The portion of SJR 27 relating to the repeal of Measure 50 is worthy of support by the committee, but the language that would direct the "Legislative Assembly to provide for exemption from ad valorem property taxes for owner-occupied primary residences" should be examined more closely and be more targeted.

As to the portion of the bill to repeal Measure 50, this would be a long overdue step. Measure 50 created a property tax system unlike most of the nation that has led to housing market distortions. According to the League of Oregon Cities, "of the 17 states that have a system with artificial taxable value similar to Oregon's, 15 of the 17 recalibrate taxable value at the time of sale, with the sale price being a market-driven determination of a property's actual value and of a potential new owner's ability to pay for local services." The Lincoln Institute of Land Policy stated that "With no periodic recalibration of [taxable] values to market levels, the Oregon system has gone the farthest of any in breaking the link between property taxes and property values." What has transpired because of this link-breaking can be observed in the attached report *Oregon Property Tax Capitalization: Evidence from Portland*, produced by the Northwest Economic Research Center at Portland State University, headed by former state economist Dr. Tom Potiowski.

In the report, it shows that in areas of Portland where Measure 50 caps have kept property taxes lower than they would have been absent the caps, sales prices were higher than properties of similar characteristics (plot and house size). The Measure 50 caps act as a subsidy to owners of property in areas that are increasing in value faster than the caps, with no reduction in housing affordability for new buyers and renters (since the tax savings are capitalized into higher sales prices and rents). This effect was also seen in the attached study *The Impact of Tax Incentives on Local Real Estate Markets: the Question of Incidence*, where they determined that "This data allows us to investigate the incidence of the local property tax savings for properties located in Enterprise Zones. Our findings show that a large part of the tax savings appears to be captured in higher rents charged by landlords."

Measure 50, by allowing for subsidies to property ownership, also contributes to inequality. Matthew Rognlie, in his paper *A Note on Piketty and Diminishing Returns to Capital* (attached), took Thomas Piketty's data from his book on inequality titled *Capital in the Twenty-First Century* and stated "Recent trends in both capital wealth and income are driven almost entirely by housing," not by a general increase in capital goods, e.g. factories, computers, etc. Moving away from the system created by Measure 50 would entail higher taxation of property wealth of relatively higher value and remove the tax cap subsidy, making the system more progressive and reducing inequality while making housing more affordable (as prices would go down in the face of higher taxation).

The language regarding to "exemption from ad valorem property taxes for owner-occupied primary residences" should also be clarified. If the exemption is the standard homestead exemption, this would lead to higher sales prices as documented above. The ideal property tax exemption on a per property basis would be to exempt the value of the improvements completely and tax the value of land only, since the lower taxation of land is what leads to higher prices for property. Further exemptions would be done on a per-capita, refundable tax credit basis for all residents, be they property owners or renters.

Thank you for your consideration.