Agency response

Questions from the Joint Committee on Ways and Means Subcommittee on General Government

March 25, 2019

Since these questions arose during the Department of Administrative Services—Chief Financial Office's (DAS—CFO) presentation on the Department of Revenue's Governor's Recommended Budget, the department coordinated its response with DAS—CFO.

What is the useful life of the scanners for the Processing Center Modernization Project?

The scanners are fully supported under contract for seven years after the time that model is no longer being manufactured. Currently, the company that makes this model of imaging equipment, IBML, has no plans to discontinue, or "end of life" that model.

Would the agency provide some background on the Non-profit Homes for the Elderly Program, including when the state started picking up the tab?

Unfortunately, we are unable to determine the exact time that the state began reimbursing counties for the cost of this exemption, but it may have been since the inception of the program in 1977.

The 1977 Legislature enacted bills codified as ORS 307.241 to 307.248 authorizing the program. We've included an excerpt at the end of this response from the biennial Tax Expenditure Report that describes the program, its purpose, and intended benefits. The program has requirements that apply to the Department of Revenue:

- Develop forms to be used by corporations claiming the exemption.
- Upon request by a county assessor, review and certify entitlement to exemption by applying corporation.
- Determine the amount of money needed to make payments and if the amount in the suspense account is insufficient to make all payments, the payments are reduced to reflect the amount in the suspense account.
- Payment to the county treasurer of the certified amount of property tax that would have been paid without the exemption by the corporation.

The department, in conjunction with the Department of Administrative Services—Chief Financial Office, offers the following about the inclusion of this reduction in the Governor's Budget:

The Governor's Budget for the Department of Revenue contains a reduction of $3.3 million for the Non-profit Housing for the Elderly property tax exemption. This eliminates payments to counties, but doesn't eliminate the exemption for qualifying properties.

In formulating the reductions proposed in Governor's Budget, staff from the Department of Administrative Services—Chief Financial Office relied on a plain language reading of ORS 307.241–307.248. The Department of Justice was not asked to provide a legal opinion on whether this budget reduction would require a statutory change to the program. ORS 307.244 explains that the Department of Revenue should pay the amount of the foregone local property tax revenue granted under this exemption to each county, less any amount prorated per ORS 307.248. The department may prorate these payments should the amounts available to the department for the exemption fall short of the exemptions granted. The law does not appear to mandate full state funding for the exemption. In fact, the law provides a procedure for the exact scenario in which state funding is not sufficient.

2.025 NONPROFIT ELDERLY HOUSING STATE FUNDED

Oregon Statute: 307.242
Sunset Date: None
Year Enacted: 1977

2017-18 Estimated Reduction in the Taxable Assessed Value: $89 million

	Loss	Shift
2017-19 Revenue Impact:	*	$3,100,000
2019-21 Revenue Impact:	$3,200,000	*

**Any taxes exempted under this provision and not paid by the state result in a loss to the taxing districts. The amount of taxes paid by the state represents costs borne by the General Fund. At this time, sufficient funds to pay the taxes for the 2017-19 biennium are expected to be available in the General Fund appropriation. As no funds are yet allocated for the 2019-21 biennium, the exempted taxes represent a loss to the taxing districts under current law.*

DESCRIPTION: Homes for the elderly built or acquired after January 1, 1977, by private nonprofit corporations (defined in ORS 307.375) that receive subsidies under certain federal and state housing programs are exempt from property taxation. Only the land and improvement value, not personal property, may be exempted. The corporation may not charge more than one month's rent as a "move in" fee or deposit, and rents must reflect the property tax savings. The occupants do not qualify for the veteran's exemption or homestead tax relief. If the corporation receives a state subsidy, any property added after January 1, 1990, is not eligible for exemption.

An annual claim must be filed with the county assessor to receive the exemption. If approved, an amount equal to what the exempt taxes would have been is billed to the Department of Revenue instead of the property owner. Funds to pay these amounts are appropriated by the legislature from the General Fund. If the General Fund appropriation is not sufficient to pay the liabilities in full, then all of the amounts paid are prorated to no more than the appropriation amount. In the event that this proration is necessary, it will result in a revenue loss to the taxing districts. For 2017-18, no proration was needed, and the payments made by the state totaled approximately $1.5 million.

PURPOSE: To "assist private nonprofit corporations to provide permanent housing, recreational and social facilities, and care to elderly persons" (ORS 307.241).

WHO BENEFITS: Residents of exempted homes who pay lower rent as a result of the home not paying property tax. In 2018, fourteen counties had 42 homes receiving this exemption.

EVALUATION: *provided by the Housing and Community Services Department*

Generally, this expenditure appears to achieve its purpose. The effect of the state funded tax relief is to reduce housing project operating expenses, thereby reducing the rents to project occupants. Tenants otherwise would have to support the property taxes through the monthly rent they pay. The average monthly rent reduction is about $40 per unit. For seniors on fixed incomes, any rent reduction can be significant.

Because eligible project sponsorship or ownership is limited to nonprofit corporations, it is assumed the full benefit of the tax relief is passed on to the project tenants. It is also assumed that the elderly households that reside in eligible housing projects have limited incomes that warrant the benefit of this rent reduction.

The current annual application process is very time consuming and involves a minimum of six separate steps each year. The administrative steps for county government include: 1) mail applications to each qualifying nonprofit, 2) verify information received from each applicant, 3) provide a copy of the information to the Department of Revenue, 4) notify applicant of approval/denial, 5) send tax statements and certification letter to the Department of Revenue for payment, and 6) notify applicant that the taxes have been paid. An alternative to the annual application could be a statement of compliance from the qualifying nonprofit, if verification is required.

An alternate means to provide an equal benefit to the project residents would be a rent subsidy program. However, administration of a rent subsidy program would be more administratively burdensome than the existing subsidy.

A direct property tax exemption may be a more efficient means to provide a like benefit to the project tenants. However, local taxing districts (such as cities and schools) would not receive compensating income if a direct property tax exemption were implemented in lieu of the tax relief program. This revenue loss would be relatively small when considered in the context of the overall scope of exemptions and special assessments. However, property taxes are direct expenses that affect the operating costs of rental housing. Without this exemption, seniors would likely experience corresponding increases in rent payments.