

SJR 1 STAFF MEASURE SUMMARY

Senate Committee On Rules

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Meeting Dates: 3/24

WHAT THE MEASURE DOES:

The measure proposes an amendment to the Oregon Constitution creating an opt-in property-tax relief program for the owner-occupied primary residence of seniors age 65 or older, in which property taxes are frozen. It refers the amendment to the people for their approval or rejection at the next regular general election.

Fiscal impact: The measure may have a fiscal impact, but a statement has not yet been issued.

Revenue impact: The measure may have a revenue impact, but a statement has not yet been issued.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:

No amendment.

BACKGROUND:

Property Taxes

Property tax is a combination of local taxes and funds most services and functions of local governments, including counties, cities, and public schools. Taxable property is most real property, tangible personal property and, for certain companies assessed by the Oregon Department of Revenue (DOR), intangible personal property. However, some property is exempt from property tax. Assessment and taxation are conducted at the county level, except for large industrial properties and “centrally assessed” properties which cross county lines, where DOR plays a major role.

Until the 1990s, Oregon had a levy-based property tax. Measure 50 (M50) changed it to a permanent rate-based property tax, where taxes are based on fixed tax rates applied to property values, instead of being determined by the local budget process. Before voters passed M50 in May 1997, property tax was generally based on real market value (RMV). Now, the Oregon Constitution requires county assessors to determine property RMV, maximum assessed value (MAV), and assessed value (AV). The AV operates as the property tax base. Property taxes are also capped by other tax limits in the Oregon Constitution, established when voters passed Measure 5 (M5) in November 1990.

Property tax rates differ across the state. The total tax rate for a property is the sum of the tax rates for all taxing districts that the property is located in. Annually, county assessors verify the tax rates and general obligation bond levies submitted by local taxing districts. Tax collection and distribution of the revenue to local districts are done by county tax collectors.

Property Tax Exemptions

Exempt property is not fully taxable. Major property tax exemptions include certain tangible personal property (household furnishings, sporting equipment), licensed property (automobiles, trailers), business inventories (finished goods, goods in process), and government property (unless leased to a taxable business or individual). Some exemptions are designed to change human behavior and achieve specific outcomes, such as increasing housing supply or economic development.

In some cases, owners of exempt property are required to make payments in lieu of tax (PILT). The payments are fees or charges to compensate, at least partially, for local government services that the exempt property owner

This summary has not been adopted or officially endorsed by action of the committee.

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chooses to consume. When AV is reduced because it is based on a restricted use, the property is said to be “specially assessed.” This includes some forest land, farmland, wildlife habitat and open space land. Specially assessed property is subject to penalties if it is not continued in the restricted use for which it has been specially assessed. Deferrals allow property tax to be paid later than it otherwise would be. Tax is due later, but the tax amount is not reduced. In some cases, deferrals have associated interest expense. Deferrals are less common than exemptions or special assessments.

Constitutional amendments

The current framework for Oregon’s property tax system is largely defined by two voter-approved ballot measures in the 1990s that made constitutional changes to limit property tax. Both of those measures are described in more detail below.

Measure 5 (M5)

M5 is a constitutional tax limit approved by Oregon voters in November 1990. It functions on a property-by-property basis and restricts property tax per \$1,000 of real market value (RMV). Education districts are collectively limited to \$5, and other government districts " collectively limited to \$10, resulting in a total limit of \$15. Property tax “compression” occurs when tax rates for a property must be lowered so that the tax imposed on the assessed value of the property does not exceed \$5 per \$1,000 of RMV for education taxing districts and \$10 per \$1,000 of RMV for other government taxing districts. That is, if tax extended for an individual property exceeds either of the limits, tax rates are reduced proportionally until both limits are met. Local option tax rates are reduced first, then permanent tax rates are reduced. General obligation bonds are not subject to M5 tax limits.

The financial significance of compression also depends on factors outside of property tax. For example, some counties had their M50 permanent rates established when they were less reliant on property tax revenue because they received significant revenue from logging severance taxes and federal forest timber payments. Severance taxes have largely been eliminated and the federal forest payments have declined or evaporated since the permanent rates were established. Compression may restrict the ability for these counties to use voter approved local option taxes to offset some of the decline in revenue from severance taxes and federal forest payments.

Measure 50 (M50)

In May 1997 voters passed M50, a constitutional amendment that established additional tax limits. Specifically, it reduced taxable property values, constrained future growth of taxable property values, and converted Oregon’s property tax system from a levy-based system to a permanent rate-based system.

M50 codified a permanent tax rate for each taxing district which can only be increased by a constitutional amendment. However, voters can approve local option taxes for up to five years for operation and up to 10 years for capital construction. Local option taxes and general obligation bonds must be approved by a majority vote at a general election.

Prior to November 2008, a double majority (i.e., at least 50 percent of eligible voters) was needed to approve local option tax or general obligation bond proposals. To reduce taxable property values and constrain their future growth, M50 created the concepts of assessed value (AV) and maximum assessed value (MAV). In 1997-98, the first year M50 was implemented, MAV for each property was set at 90 percent of the 1995-96 RMV. Under most circumstances, MAV growth is capped at three percent per year and the AV cannot exceed RMV.