HB 3518-2 Overview for HREV 06/10/25

HB 3518-2 Section by Section Breakdown

Preamble language has been added that includes historical context, general intent, and specific intent. Specific intent has been included to ensure strong revenue returns for districts and that counties maintain their local commitments to A&T service levels.

Section 1 relates to document recording fees. We tried to address each of the concerns that have been raised by various stakeholders:

- The open-ended CPI increase in the base bill is gone with a CPI-based schedule in its place.
- Instead of rounding to the nearest 50 cents we're rounding to the nearest five dollars. Which avoids frequent changes to fee schedules. The fee would go from $10 to $15 to $20, $25, and $30.
- We're sticking with CPI and not increase the fee via a set timeline to account for concerns about fees increasing should inflation slow to a crawl or even back-track.

Section 2 repeals the delinquent holdback so that districts once again get all the delinquent interest as they did before CAFFA began in 1989.

Section 3 includes the 0.3% property tax holdback language.

Sections 4, 5, 6, and 7 has some LC cleanup language and reference changes to conform with the switch from delinquent interest to revenue retention.

Section 8 has language changing the DOR's retention of CAFFA from 10% to 5%. This was calculated to ensure that DOR is held harmless upon implementation and then receives 5% of future increases.

Section 9 requires that DOR consult with counties, assessors and tax collectors, taxing districts, and members of the public before making any rule or guidance changes.

Section 10 specifies that this will be implemented beginning in TY26-27.

Section 11 includes reporting requirements:

- A written report by the DOR and an associated report back to the House Revenue Committee HREV in the Fall of 2026 by DOR, counties, and county assessors and tax collectors, to overview procedural changes to the CAFFA process.
- Additional reporting and House Revenue presentations in 2027, 2029, and 2031. Several specific metrics are included to help the committee and the public keep track of the use of CAFFA funding. This includes how much each county contributes to and receives from CAFFA each year, how much local funding they provide each year, certified expenditures, as well as a requirement to explain any changes that are made to CAFFA procedures.
- DOR will be required to make the data listed above publicly available including on their website every year. Through something simple like a page of data. Again, minimal and just so the data is there for those that want to keep an eye on counties…

Section 12 includes a $10m State GF allocation.

Section 13 E91 clause.

HB 3518-2 Return on Investment Breakdown

Estimates of annual property tax revenue returns

- At present, due to the lack of resources to keep the property tax roll accurate and up to date, assessors and tax collectors estimate there is at least $100m in property tax revenue that is not getting collected and returned to districts statewide annually.
- Within the next 6-8 years, as funding falls further and further behind need, we project that the annual shortfall could exceed $300m.
- Education makes up ~40% of the property tax base, which means an annual loss of $120m for schools. Which means the State General Fund would need to contribute an extra $120m per year ($240 per biennium) to achieve the same level of overall school funding.
- Put another way, Oregon's General Fund is unnecessarily backfilling the loss of tens of millions of dollars every year in missing property tax revenue. And problem is getting worse every year.

Estimate of aggregate returns over next 6-8 years

- HB 3518 will return, in the net, more than $1.3B to districts over the next 6-8 years.
- Of that, more than $500m is for school and education districts, either allowing the state to use less GF dollars to hit the same overall school funding target or allowing it to go further.

Near-Term Rollout Estimates – for Districts Generally

- The majority of districts will see a positive ROI within the first budget cycle (TY2026-27)
- The aggregate return on investment for taxing districts will be positive within the first budget cycle.
- Those that don't see a positive ROI within the first year will have a loss so small that it will be overwhelmed by the uncertainty of the next year's revenue projections.
- The ROI will turn positive and increase every year thereafter.

Near-Term Rollout Estimates – for School and Education Districts

- No school or education district will see any loss in any year from HB 3518.
- Within the first year, most districts - and all districts in the aggregate - will see a positive local ROI.
- A minority of districts will have a negative local ROI in that first year.
- Again, as with non-school districts, the level of that local loss, will be so far within the uncertainty of revenue projections that no one would ever notice.
- But more importantly than that, the tiny loss that will occur in a minority of districts, <u>will be backfilled via the school equalization formula.</u>
- This is due to the fact that there will be more positive local ROI than negative local ROI. And so in effect, all districts will gain, even those that have a small local ROI, within the first year.
- The only way that we can see that any school districts would actually lose money is if the Legislature decided to de-fund them. Maybe that's where the concern lies.

Contact Erik Kancler (541) 788-8460 | erik@kanclerconsulting.com

County Assessment and Taxation: Core County Function or District Support Function?

A core county function is an essential, direct service that counties provide to the public. These services are not a nice-to-haves, they're need-to-haves. Think public safety or health. It's presumed that those being served are paying for the core function in a fair manner.

- There are also core city functions. And core district functions. Where the beneficiaries are also expected to pay in a fair manner.
- **<u>But County A&T is different. County A&T's core function is to support the core functions of all the other taxing districts.</u>**
- Counties as taxing districts represent less than 20% of the tax base overall. The other taxing districts represent more than 80%.
- This is why assessors and tax collectors say that the represent and work on behalf of the taxing districts of their counties not on behalf of the counties themselves.
- The non-county taxing districts combined contribute less than 10% of the funding for County A&T at present.
- There is no other district-provided function like County A&T where a) the primary service is to districts and b) the service provided is to manage their single most important revenue asset.

County A&T is not a Core County Function in the sense that people are using that term. Calling it that is a misunderstanding of the nature and the importance of the services provided by County A&T. Without A&T, taxing districts simply would not survive.

Contact Erik Kancler (541) 788-8460 | erik@kanclerconsulting.com