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Reconstructing Oregon's Frankentax: Improving the Equity, Financial Sustainability, and Efficiency of Property Taxes

City Club of Portland (Portland, Or.)

Reconstructing Oregon's Frankentax: Improving the Equity, Financial Sustainability, and Efficiency of Property Taxes

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City Club members will vote on this report between Friday, November 15, 2013 and Wednesday, November 20, 2013. Until the membership votes, City Club of Portland does not have an official position on this report. The outcome of the vote will be reported in the City Club of Portland Bulletin Vol. 95, No. 9, dated November 21, 2013, and online at pdxcityclub.org.

Executive Summary

Oregon's more than 1,200 counties, municipalities, and special districts—including school districts and community colleges—rely upon property taxes to fund the public services their citizens enjoy. Ballot Measures 5, 47, and 50 define the State's property tax system. The sponsors of these measures, along with the voting majorities who supported them, sought to do good: reduce taxes and increase the predictability of property taxes for owners of property. They succeeded at these goals.

However, like the creature in Mary Shelley's novel, Oregon's property tax, a Frankentax, is slowly but surely wreaking havoc upon its creators and their communities in ways they might not yet realize.

The City Club of Portland chartered your committee to research the evolution of the Oregon property tax system, to understand and explain it, to evaluate its pros and cons, and to recommend improvements. The committee adhered to the principles identified in the City Club's 2002 comprehensive study, *Tax Reform in Oregon*. Those principles include fairness, sufficiency, certainty, clarity, efficiency and neutrality.

Your committee interviewed thirty-four witnesses, including tax assessors; current and former elected and appointed representatives from state and local government; lobbyists for services funded by property taxes; proponents of property tax limitations; proponents of changing the property tax system; and policy analysts. The committee surveyed assessors, receiving responses from throughout the State representing 20 of 36 counties. The committee also tracked news reports related to the property tax beginning in January 2013, and reviewed academic literature and policy analyses published by think tanks.

Your committee concludes that Oregon's property tax system is deeply flawed. The flaws are statewide. Specifically, your committee has reached the following conclusions:

1. ***Oregon's property tax system is inequitable.***

    - Owners of properties with similar real market values pay different amounts of property tax.

- The burden of the tax on property owners falls more heavily on those with lower incomes.
- Residential property bears more of the tax burden than commercial property.
- The property tax is associated with gentrification.
- School districts that impose higher property taxes on themselves lose State distributions of school funding.
- Finally, jurisdictions with authority to levy property taxes do not bear proportionate shares of the costs of administering the tax.

2. ***Oregon's property tax system undermines local control.*** The primary responsibility for funding K-12 schools—the primary justification for property taxes—has transferred from local property owners to the State. That is obvious. What is less obvious and more insidious is that some voters have been approving new taxes to support services for which they will receive no bill. A tax newly approved by one jurisdiction might reduce revenues in overlapping jurisdictions. The caps on total tax rates protect property owners from changes in their tax burden; they also induce a confusing, uncoordinated proliferation of tax jurisdictions that cannibalize each other and make accountability more difficult.

3. ***Oregon's property tax system fails to sustain service levels approved by voters.*** During the past twenty-five years, increases in the cost of local government services, and in the demand for them because of the migration of residents and businesses, have run up against inflexible Constitutional limits on levy increases, on tax rates set in 1990, and on assessed values of property pegged to 1995. Mechanisms that introduce a degree of flexibility, such as local option levies, are administratively costly. Mechanisms designed to promote predictability in tax burdens, such as limits on tax rates, can induce reductions in service levels that voters have approved. While some school districts are better funded than they otherwise would be because of equalization, other government tax jurisdictions are trying to achieve sustainability by increasing revenues or decreasing services. Inevitably, the State will supplement some of the decreased services, albeit funded by income taxes.

4. ***Exemptions from the property tax exacerbate inequities and financial unsustainability.*** Exempting a property from tax, more properly called a "tax expenditure," means nonexempt properties bear a greater burden of the cost of funding government services. With a real market value of $98.3 billion, almost 200,000 properties in Oregon are exempt from paying some or all of their property taxes. Property tax exemptions are distributed unevenly across Oregon's thirty-six counties. Eliminating exemptions would increase revenues or, alternatively, reduce property tax rates on all other properties.

5. ***Oregon's property tax system is difficult to comprehend, undermining its legitimacy.*** Experts and members of your committee could not answer significant questions about Oregon's property tax system. Moreover, the value of services funded through the tax system tend to be less visible than the tax bills, which arrive annually, leading property owners to question the system and to focus on reducing taxes. The mechanics of the system are so complex that voters may be unable to determine the long-term consequences of proposed tax measures.

6. ***Oregon's property tax system requires a bold, comprehensive overhaul.*** Recent proposals for reforming Oregon's property tax system, however well intentioned, are likely to exacerbate other problems, generate new Frankenfees or Frankentaxes, or at most improve the system moderately. Limiting taxes to limit spending begs the important question: what services do voters want to purchase at what prices? The situation calls for a reasoned, evidence-based redesign that addresses the concerns motivating supporters of Measures 5 and 47/50 while reducing unintended consequences.

This report makes six recommendations to rebuild Oregon's property tax system. Voters must act on the first, a

ballot measure to be referred to the voters by the Legislature. It will take effect if passed and if the Legislature enacts the second, third and fourth. Recommendations five and six can be achieved by legislative action alone. We propose that the Legislature implement our recommendations in phases to avoid precipitous changes in tax bills or budgets.

Recommendation 1: The Legislature should place a ballot measure before the citizens repealing Constitutional Measures 5 and 47/50.

Recommendation 2: The Legislature should by statute implement base levies, adjusted annually for inflation and population changes and subjected to periodic citizen review.

Recommendation 3: The Legislature should by statute apply property tax rates to a rolling average of real market values.

Recommendation 4: The Legislature should create a task force to prepare recommendations for re-establishing local control over funding of K-12 while satisfying equalization.

Recommendation 5: The Legislature should scrutinize and scrub exemptions of property from the tax base, which should be treated as tax expenditures. Subject them to a means test and review them periodically.

Recommendation 6: The Legislature should by statute improve the equity and efficiency of property tax administration.

Your committee makes two recommendations for further study:

City Club should study a phased process for replacing the tax on land and buildings with a land or split-value tax.

City Club should study the use of performance management in local government to educate the public about the benefits they receive for the taxes they incur.

Introduction and Charge to the Committee

Oregon's more than 1,200 counties, municipalities, and special districts—including school districts and community colleges—rely upon property taxes to fund the public services their citizens enjoy. According to David Brunori, a student of the subject, the property tax has virtues that account for its widespread use and longevity throughout the world.[i] It is familiar and stable. It provides a reliable source of revenues. It connects local services to the value of the largest investment most people make: a home. It is equitable to the extent that the property owner pays in proportion to the value of the property, including the benefits received. The property tax system gives local jurisdictions significant control over their financial affairs. As a visible tax, it helps voters holding government officials accountable. Finally, it is relatively easy to administer, primarily because land and, to a degree the improvements upon it, are immobile.

Still, others have described the property tax system as "a structure designed by a mad architect, erected on a shaky foundation by an incompetent builder, and made worse by the well-intentioned repair work of hordes of amateur tinkerers."[ii] The well-intentioned repairs to Oregon's property tax system during the past quarter

century have reduced tax bills. They also have had consequences, largely unintended, that call into question the virtues of our property tax system.[iii]

Governor Kitzhaber in his 2012 State of the State address said that revenue reform was high on his agenda. Tax reform typically focuses on a state sales tax or changes to the Personal and Corporate Income Tax Kickers. Changing the property tax system has no political traction. But the property tax system and its impact on local governments, described by Lane Shetterly as "a crisis in slow motion,"[iv] demand attention. Because state government creates and empowers local jurisdictions—counties, municipalities, school and other special districts—to tax their constituents and to provide services, state government will have to restore the virtues of the property tax.

Charge to the Committee

City Club's Research Board charged the Property Tax Research Committee with:

1. researching the evolution of the Oregon property tax system,
2. understanding and explaining the implementation of the property tax system,
3. evaluating its pros and cons, and
4. recommending improvements.

The Board instructed the committee to consider the principles identified in the City Club's 2002 comprehensive study, *Tax Reform in Oregon*. Those principles include fairness, sufficiency, certainty, clarity, efficiency and neutrality. The study assumes that property taxes will remain a significant component of funding for local governments. While the Research Board encouraged the committee to identify the merits and disadvantages of the property tax, the Board directed the committee to focus its recommendations on improving the property tax system rather than on alternative tax sources.

This report provides a primer on the property tax and its evolution in Oregon, explaining how the property tax works in theory and how it works in Oregon. In doing so, we exercise a degree of artistic license to dramatize an otherwise dry subject, not to make light of the situation or to criticize those who have invested in improving it during the past quarter century. After reviewing the process used to conduct its research, we present your committee's conclusions and the evidence upon which they are based. Finally, we present the criteria committee members agreed upon as a basis for evaluating possible improvements, and close with recommendations.

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[i] Brunori, D. (2007). *Local tax policy: A federalist perspective*. Urban Institute Press Ch. 4.

[ii] Stocker, Frederick C. (1991) *Proposition 13: A ten-year retrospective*. Lincoln Institute of Land Policy.

[iii] Brunori, D. (2007). *Local tax policy: A federalist perspective*. Urban Institute Press Ch. 4.

[iv] Lane Shetterly, witness

Oregon's property tax system as a Frankentax, a monster only a mother could love

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Oliver Wendell Holmes said, "Taxes are what we pay for a civilized society."

The Beatles said in *Taxman*:

If you drive a car, I'll tax the street,

If you try to sit, I'll tax your seat.

If you get too cold, I'll tax the heat,

If you take a walk, I'll tax your feet.

The conflicts over Oregon's property tax system derive from these contrasting sentiments.

Preliminaries

The concept of a property tax is simple. A *tax* is money paid to the government of a jurisdiction. Every tax system has four components, three of which comprise the formula for calculating taxes:

1. Tax revenue is the quantity of money generated by the tax system. It is common to talk about the property tax *levy*, that is, the amount of money the tax generates to support government operations. We refer to it as L.
2. A tax rate is the financial charge per unit of the tax base. For the property tax, the tax rate is typically dollars per thousand of the property's taxable value, or *millage*. We refer to it as M.
3. A tax *base* is the thing taxed. For the property tax, the thing taxed is property, measured typically in units such as acres of land or the dollar value of the property. We refer to it as B.
4. Tax administration is the set of procedures a jurisdiction employs to define L, M, and B, and to collect and distribute funds. These include procedures to define the tax base, such as including or excluding properties subject to the tax; assigning taxable value to property; and enforcing collections, all of which influence the size of B.

The first three components relate to each other through an equation, tax revenue equals tax rate multiplied by the tax base:

Levy (that is, revenue)=Millage (that is, tax rate) times Tax Base

or

$$L=MxB$$

Regardless of the complexity of the tax system, it works through this immutable equation, as implemented through tax administration. There's nothing else to manipulate, nothing else to change.

To understand the history of the property tax, we look at how L, M, B, and tax administration have changed, who changed them, and why. The system we saw in Oregon until 1997 had its roots in ancient practices common throughout the world. After 1997, Oregon created a tax creature all its own.

The Ancients Created It

The earliest known tax records date from 6000 BCE in modern day Iraq. Assessors used a system with features

similar to those we find today. To make tax administration feasible, they focused on one geographic area at a time within the city-state Lagash, assessing and taxing a different area each month. Through much of Oregon's history, assessors have reviewed and updated assessed values periodically, one area at a time.

Property taxation in ancient times focused on land and what it produced.[1] In Egypt the tax base expanded to include grain, cattle, oil and beer. A typical tax rate was ten percent.[i] The items of property subject to the tax have changed in modern times (as have the rates).

When early tax authorities set a rate (M) to be applied on the right side of the property tax equation, the resulting revenues (L) changed. In modern parlance, this would be called a rate-based system. When taxing authorities set the amount of revenue (L) to be collected on the left side of the property tax equation, the resulting rate (M) changed. In modern parlance, this would be characterized as a levy-based system.

The Athenian General Aristides (530-468 B.C.) became known as Aristides the Just for his legendary impartiality and competence in administering the property tax system. Following his death, a precursor to modern day tax revolts took place. Citizens complained about the level of taxation, the size of government, and biased, inefficient tax administration. As a result, the Athenian council reduced taxes, ran out of money to fund the Peloponnesian War, and Athens lost.[ii]

Between 200-300 AD, Romans paid tax on the value of land, buildings, trees, livestock, vines and various personal properties. Augustus Caesar (27 BCE-14 CE) redesigned the tax base as a flat rate on land, basing the tax not on what farm land produced but on its capacity to produce. This provided economic incentives for putting land to its maximum use because a farmer who produced more paid no more tax than one who produced less.[iii] It was a precursor to "land value taxation," which appeared most recently within the U.S. in Pennsylvania to promote more intensive use of urban land.

Medieval Aristocracy Nurtured It

Periodic tax protests inspired their own legend: Lady Godiva rode naked on a white horse through Coventry, England in the 11th Century to protest oppressive taxes imposed by the Lord of the town, her husband. The term "Domesday Book," known colloquially today in England as the "Doomsday Book," referred to each town's book of assessment for every property and the property tax due for each person. King John signed the Magna Carta under pressure in 1215, partly because he raised taxes to a confiscatory level. By 1689, the King could not tax without the consent of the Parliament, as decision-making authority for regulating the tax system shifted from the executive to the legislature.[iv]

After 1290, personal property taxes appeared with precursors of today's exemptions for the poorest and the church, as well as for selected items such as a knight's armor and a merchant's capital. Tax administration became increasingly difficult because wealthier taxpayers moved assets among multiple residences to avoid taxation. As with land value taxation, the tax system influenced taxpayer decisions about their use of their property.

Pilgrims Brought It Across the Pond

The property tax originated early in American history as a local tax, bringing from the mother country the importance of the sheriff, such as the Sheriff of Nottingham in the legend of Robin Hood. The sheriff enforced laws and assessed and collected taxes. Soon after landing in Plymouth, Pilgrims created taxes and assessments—assessing more productive land at a higher tax rate—to fund their common defense.

For over 100 years, Puritans in Boston mandated taxes on everyone to pay for the church and religious education

of their children.[v] Today, we do not pay taxes to fund churches and religious education; instead, we exempt property owned by religious organizations, which benefit from police, fire and other public services funded by the property tax.

Early American communities taxed land and cattle with different rates for different categories of property. As greater varieties of property appeared in the 18th and 19th Centuries, complicating the tax base, administrative challenges led to a general and uniform tax rate on total property. 'Total property,' a measure of a taxpayer's capacity to pay taxes, included personal property. By the late 1800's, thirty-three states, including Oregon (1859) had constitutional provisions requiring that all property be taxed equally by value. As an embodiment of the Jacksonian ideal of equality, a uniform tax levied meant every taxpayer paid for government services in proportion to his or her wealth.[vi]

The property tax system worked as a revenue source for the elaborate system of local government developing in the United States. States divided themselves into counties, delegating to them the responsibility for administering state laws and authorizing citizens to organize municipalities and tax districts to perform specialized functions. So it was in Oregon.

Industrialists Refined It

The challenges of administering an inclusive base undermined the property tax. First, as the economy industrialized, intangible property, such as financial instruments (stocks, bonds, mortgages, notes) became significant and mobile sources of wealth. The coincidence between the location of wealth and the scope of government responsibilities broke down. State and federal responsibilities increased, accompanied by greater reliance on consumption and income taxes; these could tap into intangible and mobile assets more easily. Second, elected local assessors tended to value property below market. Third, wage earners and professionals had substantial incomes but little property, disconnecting property ownership from the ability to pay.

By the end of the 19th Century, our current system emerged: a tax on real estate and business equipment and inventory to support government services provided locally.[vii] Other than real estate, tangible property held by persons is not part of the base. In some states, including Oregon, the state assesses public utilities, railroads, and similar properties but otherwise, local jurisdictions set the rates (M) and administer the system. This creates challenges for achieving uniform assessments. The pattern in the U.S. is different from other large countries, where the national governments administer the land registration and assessment system, in some cases collecting property tax revenues (L) on behalf of local governments.

During the 20th Century, states began assigning property in the tax base (B) to different classifications with different rates. Assessing taxes became a profession. When the depression of the 1930's produced tax delinquencies, which allowed the government to take ownership and sell the delinquent properties, the public resisted.

State governments began limiting the tax rates and some exempted owner-occupied residences from the tax base. Called "homestead exemptions," these came under attack as inequitable for relieving the burden on wealthy homeowners and reducing the revenues of local governments whose tax base consisted largely of residential property. By the mid-20th Century, "circuit breakers," which limit the tax when it exceeds a percentage of a taxpayer's income, replaced homestead exemptions, focusing tax relief on lower and middle income, older, or disabled homeowners.[viii]

Meantime, special purpose districts proliferated, but statutes authorizing their creation often limited the tax rate

(M) or the total amount of tax (L) each unit could impose. However, the post-war rise in value of the tax base (B) increased the amount of tax collected (L). Voters were displeased.[ix]

Californians Almost Killed It

This brings us to 1978 and the tax revolt in California that produced Proposition 13. It fixed the tax rate (M) and the value of property subject to the tax (B). The value of property to which the rate is applied, called its assessed value, can increase by 2 percent annually or the rate of inflation, whichever is lower, regardless of the change in its real market value. To increase or add new local taxes requires two-thirds of the local electorate to approve. Upon sale of a property, its value for tax purposes resets to its sale price. Taken together, these changes reduced property tax collections (L). The new system also proved difficult to administer, generated unintended consequences (burgeoning fees, user charges and business taxes) and weakened governments closest to local citizenry.

Oregon's Clones

Proposition 13 inspired movements in other states.[x] The ballot measures in Oregon known as 5, 47 and 50 created a tax system unique in all the world and in recorded history. It limits all four components of the property tax system. Like Victor Frankenstein, who gave life to the creature in Mary Shelley's novel, the sponsors of Measures 5, 47, and 50 and the voters who approved these measures were neither repulsed by their creation nor tried to escape from it.[2] They set out to do good: reduce taxes and make them more predictable.

Like the fictitious creature who wished to be loved, however, Oregon's property tax system has evolved into a monster. It is misunderstood. As it has matured and dealt with reality, it has wreaked havoc. Reducing taxes by mandate has consequences negative as well as positive. Most likely the sponsors of Measures 5 and 47/50 neither intended nor anticipated its negative consequences, at least not their extent. Like Frankenstein's creature, the Frankentax plagues those who breathed life into it.

The transformation of the property tax system began innocently enough. Before Measure 5, each jurisdiction decided upon the funds it required to provide services (L).[xi] In this levy-based system, county assessors estimated the real market values for all properties, meaning the prices at which they would sell, to define the tax base (B).[3] Dividing the total levy (L) by the total tax base (B: subtracting the value of exempt properties) yielded the tax rate (M). Multiplying M by the value of each property yielded its tax payable.[4] See Table 1.

Table 1: Pre-Measure 5 Tax Calculation

	House A	House B	Target
			
Real Market Value	$ 30,000	$ 60,000	$ 10,000,000
Tax Rate ($/$1,000)	X 21.10	X 21.10	X 21.10
Tax	$ 633	$ 1,266	$ 211,000

The system involved three sets of actors. *Elected officials* decided upon the size of the levy. The factors influencing their decisions included citizen expectations about the quantity and quality of government services; the cost of producing the services, including the rate of inflation; and the size of the population being served.

County assessors assessed the value of properties from the most current information available on sales of actual or comparable properties; hence the label: real market value. The factors influencing assessor decisions included the technology they used to estimate real market value and economic forces that determine the supply and demand for property.

Property owners within each jurisdiction paid their shares of the resulting levy and, coming full circle, decided who served as elected officials. If elected officials made decisions contrary to the preferences of a majority of the voters, the majority of voters could replace elected officials with people it believed would make decisions more to its liking.

This system was self-governing with one exception. A provision in Oregon's constitution limits annual growth in the levy to six percent unless voters approved a larger levy.[5] This is a recurrent theme: attempts to control property taxes by making one or more components of the system inflexible. This removes control from decision-makers, whether elected or citizens. Yet conditions in a jurisdiction can change unpredictably for reasons largely outside the control of decision-makers: citizens decide they want different service levels, state and federal governments mandate service provision, intergovernmental transfers of funds decline or increase, people migrate in or out, new technology appears, and the economy waxes and wanes.

Oregon's property tax system made it difficult to respond. Under the constitutional limit, a jurisdiction that had reason to increase its levy by 2 percent one year but by 8 percent the next could not exceed 6 percent in the second year without a costly public vote. The public might not approve. This created incentives for officials to maximize the levy increases at 6% in every year, an unintended consequence of using a cap disconnected from reality that set the stage for imposing more caps and triggering more unintended consequences.

A taxpayer's obligation under this system depended not only on the market value of the taxpayer's land and buildings but also on property improvement and development within the taxing jurisdictions to which the taxpayer's land belonged. If, for example, new construction within the jurisdiction increased the total value of taxable property (B) more than an increase in its levy (L) the tax rate (M) could decrease. The taxpayer's payments, then, could decrease. With no construction and no change in the value of property values in the jurisdiction, the taxpayer's obligation increased or decreased with the size of the levy.

The First Clone, Measure 5, Had No Teeth

Oregon's legislature enacted property tax relief to deflate support for a "Proposition 13" but under increasing budget pressure during the 1980's the amounts of relief declined. Tax bills increased even when taxpayers made no investments in their properties because economic forces drove property values higher. Citizens presumably perceived insufficient increased benefits in the value of government services. People on fixed incomes who had lived in their houses for a long time feared being "taxed out of their homes."

After several failed efforts, in 1990 voters amended Oregon's constitution through Measure 5. Without eliminating the constraint of 6 percent growth on the levy (L) Measure 5 imposed limits—again invariant—on tax rates (M):

- $15 per $1000 of real market value to fund schools, declining each year for five years until it reached a cap of $5 per $1000;
- $10 per $1000 of real market value to fund all other government operations.

MEASURE 5: STATE CONSTITUTIONAL LIMIT ON PROPERTY TAXES FOR SCHOOLS, GOVERNMENT OPERATIONS

Question: Shall constitution set limits on property taxes, and dedicate them to fund schools and non-school government operations?

Summary: Amends constitution. Limits 1991-1992 property taxes for public schools to $15, and property taxes for non-school government operations to $10 per $1000 of market value. Schools limit gradually decreases to $5 per $1000 in 1995-1996 and after. Government operations limit remains same. Limits do not apply to government assessments, service charges, taxes to pay certain government bonds. Assessments, service charges shall not exceed cost of making improvements, providing services. General Fund to replace, until 1996, school funds lost due to school limits.

(*Oregon Voters' Pamphlet*)

Bond levies to improve infrastructure add to the total tax rates but are not subject to Measure 5 limits. Rather than control operating expenses directly, Measure 5 limited property taxes to 1.5% of property values to be used for operating expenses. This made tax rates simple to understand for property owners. It also decoupled tax revenues from variations in operating expenses, which previously could have influenced the size of a jurisdiction's levy.

Measure 5 required the State to replace revenue lost by K-12 school districts in aggregate, not in individual districts. At the time, some people thought approving Measure 5 would put such a burden on the State income tax system that citizens would adopt a sales tax. They did not.

To achieve its objective of lowering tax bills, Measure 5 created an unorthodox procedure in tax administration known as compression. See Table 2 for an illustration. Levies—including temporary ones—imposed on any property inside multiple tax jurisdictions may not generate tax rates whose sum exceeds mandated limits.[6][xii] Compression requires tax administrators to adjust the rates (M_1, M_2…) applied to each property. If the school district rate or the sum of other government—city, county, special district—operation tax rates exceed their limits, then tax assessors reduce the rates of each jurisdiction proportionate to its share of the total rate until reaching the mandated limit.

For example, consider property within a municipality within a county, where the municipality's tax rate is $7 per $1000 of taxable value and the county's is $5, totaling $12 or $2 more than the limit. The municipality's share of the total tax rate would be 7/12=.583 (58.3%); the county's would be 5/12=.417 (41.7%). By the inexorable laws of arithmetic: $5.83+$4.17= $10.00. Compression requires the two jurisdictions to share in eliminating the amount above the limit.

Table 2: Post Measure 5 Tax Calculation with Compression 1992

		House A		House B		Target
						
Real Market Value			$ 40,000		$ 80,000	$ 10,000,000
General Gov.	Rate ($/$1,000)		X 15.10		X 15.10	X 15.10
	Tax Extended		604		1,208	151,000
	Limit ($10/$1,000)		400		800	100,000
	Compression Loss		(204)		(408)	(51,000)
	Compressed Tax		400		800	100,000
Education Rate/Tax		$ 9.40	376	$ 9.40	752	$ 9.40 94,000
Unlimited Rate/Tax		$ 2.50	100	$ 2.50	200	$ 2.50 25,000
Total Tax			$ 876		$ 1,752	$ 219,000

Where the school tax rate and the sum of other government tax rates fell below their limits, the system looked like the old system: levy-based because the size of the levy (L) the total tax base (B) and the value of an individual's property determined the size of the individual's tax bill. Where the school tax rate and the sum of other government rates exceeded their limits, the system became rate-based: the rate and the value of an individual property determined the size of the individual's tax bill.

Previously, decisions by elected officials in jurisdictions that overlapped had been independent. Taxpayers were subject to the sum of the tax rates, whatever they were. After Measure 5, decisions by one jurisdiction could come into conflict with decisions by another, potentially to the detriment of both as they attempted to raise revenues within the fixed limits. Voters had given the first breath of life to the Frankentax.

Measure 5 left largely untouched the tax base (B) which could change with market demand. A rapid and continuing increase in property values during the 1990's meant that tax rates (=L/B) fell below Measure 5 limits. Tax bills increased without citizen votes, regardless of limits on tax rates and levies, when the real market value of property increased by a greater percentage than the reduction of the tax rates. The owner of a house purchased for $100,000 paid $1000 if the general government rate reached its limit; if the value of the house increased to $120,000, the owner would pay $1200, or twenty percent more. If property values changed dramatically and differently from one year to the next, so did property tax bills, assuming the tax assessors kept their assessments up-to-date.[7] Property owners bore the risk of property values changing and, thereby, tax bills changing.

The Second Clone, Measures 47/50, Had Teeth and Lockjaw

The first clone proved to be unpopular with taxpayers. They disliked the volatility and unpredictability of their tax bills. They disliked paying taxes on the increasing value of their properties, gains they would not realize until selling. In 1996, the voters approved Measure 47, also an amendment to Oregon's constitution, to reduce tax bills and control their growth. However, the legislature, tasked with implementing the constitutional amendment, could not make it work. Technical problems interfered. [xiii] To state it more aggressively, Measure 47 produced a

property tax creature that was in effect disfigured, hobbled, and gagged, much to the consternation of the sponsors of Measure 5.

MEASURE 47: AMENDS CONSTITUTION: REDUCES AND LIMITS PROPERTY TAXES; LIMITS LOCAL REVENUES, REPLACEMENT FEES

SUMMARY: Amends constitution. Limits 1997-98 property taxes to lesser of: 1995-96 tax minus 10 percent, or 1994-95 tax. Limits future annual property tax increases to 3 percent, with exceptions. Limits revenue available for schools, other local services funded by property taxes. Local governments' lost revenue may be replaced only with state income tax, unless voters approve replacement fees or charges. Provides no system for spreading revenue cuts among local governments. Restricts new bonds. Tax levy approvals in certain elections require 50 percent voter participation. Other changes.

(*Oregon Voters' Pamphlet*)

Oregon's legislature, attentive to the public sentiment expressed through support for Measure 47, proposed a new clone capable of achieving the results sought by Measure 47. Legislators did this by proposing Measure 50. Voters approved it in 1997. [xiv]

In sum, Measure 50 operated on all four features of the tax system at once: L, M, B and tax administration. Because the primary levers influencing tax bills are the restrictions on rates, this looks more like a rate-based decision-making system than a levy-based decision-making system. The risk of changes in property values producing changes in tax bills no longer falls upon taxpayers because the changes are controlled. The risk of revenues no longer keeping up with the cost of government services now appears to taxpayers to fall upon government officials. However, when government officials reduce service levels or seek optional levies to increase revenues, the risk returns to taxpayers. Unintended consequences could include reduced transparency in decision-making and citizens holding government officials accountable for decisions outside the officials' control.

MEASURE 50 AMENDS CONSTITUTION: LIMITS ASSESSED VALUE OF PROPERTY FOR TAX PURPOSES; LIMITS PROPERTY TAX RATES

SUMMARY: This measure changes current provisions relating to property taxation. The measure establishes the maximum assessed value of property in this state for the 1997-1998 tax year as 90 percent of the property's real market value in the 1995-1996 tax year and then limits any increase in maximum assessed value for tax years following 1997-1998 to three percent per year. For the 1997-1998 tax year, the measure generally reduces the total of all taxing district levies in the state by 17 percent. This reduction will reflect Measure 47 cuts by basing the cuts on the lesser of the 1995-1996 tax minus 10 percent or the 1994-1995 tax, adjusted for voter-approved levies. For subsequent tax years, the measure permanently fixes the tax rates of each taxing district, based on each district's 1997-1998 levy. The measure permits assessed values to be adjusted for new property or property improvements and certain other events, but limits the amount of the adjustment. The measure permits certain local option taxes, if approved by voters. The measure retains the existing total property tax rate for all property taxes, including local option taxes but excluding taxes for bonds, at $5 per $1,000 of value for schools and $10 per $1,000 of value for nonschool government. The measure repeals obsolete constitutional provisions.

(*Oregon Voters' Pamphlet*)

Measure 50:

- assigned and made permanent (invariant) the tax rate (M_P) in each jurisdiction, calculated by reducing the jurisdiction's 1997 levy (L) by 17 percent and dividing the reduced figure by 90 percent of its 1995-96 real market value (B) so the district's permanent rate became:

$$\text{Permanent Millage}=(\text{Levy}-.17\text{xLevy})/(.9\text{xBase})$$

Or

$$M_P=(L-.17L)/(.9xB);$$[8]

- allowed voters in each local jurisdiction to approve levies, L_T, called local option levies, that, once divided by the district's tax base (B) became temporary (five year) additions to its permanent rate (M_P);
- reset residential real market values of each property in 1997 to 90 percent of their values in 1995, establishing maximum assessed values (MAV) and restricted their increase to 3 percent per year, never exceeding their real market values (RMV).[9] See Table 3. Measures 47/50 did not splice into the DNA of the creature a provision included in California's version, resetting the taxable assessed value to market value upon sale of the property. Every tax base (B) in Oregon's tax jurisdictions became an artifact of property tax rates in 1997, not a reflection of current market values;
- retained the invariant limits on increasing levies (L) at 6 percent unless citizens approved an optional levy;
- retained Measure 5's invariant limits on tax rates, M ($5 and $10/$1000) as caps on the sum of all rates, permanent and local option, so that compression remained.

Table 3: Post Measure 50 Calculation of Assessed Value with 3 percent Annual Increase

	House A	House B	Target Store
			
Real Market Value in 1995	$ 75,000	$ 150,000	$ 10,000,000
Assessed Value in 1997	67,500	135,000	9,000,000
Real Market Value in 2012	350,000	350,000	9,000,000
Assessed Value in 2012	105,163	210,326	9,000,000
AV % of RMV	30%	60%	100%

What about new construction? A new development comes onto each county's Doomsday Book as a percentage of its real market value. This means: multiply the real market value of the new property by the ratio of total assessed value to total real market value for all properties (residential, commercial, or industrial) in the County, called the Changed Property Ratio (CPR). The Changed Property Ratio adds complexity to the tax system.

$$AV=CPR \times RMV$$

where

$CPR=AV_{Total}/RMV_{Total}$

How does compression affect the property tax paid on a given piece of property subject to a combination of permanent and local option rates? To get to the $10 per thousand rate for general government applied to that property, reduce the rate resulting from the local option levy first, even to zero. If more than one local option levy applies, reduce them in proportion to their contribution to the excess over $10. If compressing all local option levies to zero fails to bring the rate to $10, reduce permanent rates proportionately.

Assessors apply compression as required, property by property, because the boundaries of jurisdictions differ and overlap. Properties can be subject to taxes from different jurisdictions. Property within Multnomah County and subject to its tax, for example, might be outside the City of Portland and not subject to the City's tax. A property within the City would be subject to both. In neither case can the consolidated tax rate for general government (other than schools) exceed $10.

A property owner might not be affected by a local option levy enacted within a given tax jurisdiction, regardless of how he or she voted. Voters can approve a local option levy to raise a specified amount of money but the jurisdiction might raise less if properties within it are subject to compression. Jurisdictions overlapping the one that enacted the local option levy or created a new permanent levy might lose revenues as well.

How does compression work in a world with both assessed and real market values? Rolling back real market values, Measure 50 created assessed values to which tax rates apply. But Measure 50 retained Measure 5's caps on, for example, consolidated tax rates used to support government expenditures other than for education: $10/$1000 of *real market value*. To determine whether to compress tax rates, an assessor sums the uncompressed tax rates established by statutes in taxing jurisdictions applicable to a given property, then multiplies this sum times the property's assessed value as established under Measure 50. If the result exceeds the result from multiplying $10 times the property's real market value, which is the cap, the assessor compresses rates to eliminate the excess. If AV is sufficiently below RMV, the property owner will pay the real (that is, statutory) tax rates; otherwise, the property owner will pay compressed rates.

It's Alive: Distorted, Contorted... and Growing!

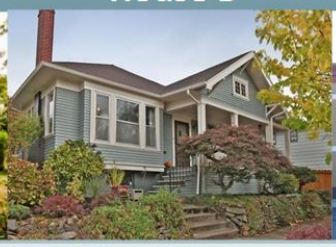
Measure 50 exempted the property tax from the Constitutional requirement of uniformity. Assessed values across property owners and among various classes of property need no longer be uniform. The combination of Measures 5 and 47/50 made assuring uniformity unnecessary by mandating the calculation of assessed value from a base year with a fixed percentage annual growth limit. Indeed, of twenty states with limits on the assessed value of property, Oregon has gone farthest in breaking the link between property taxes and property values.[xv] Properties in Oregon with comparable real market values could have different taxable assessed values and, because of compression, different tax rates. See Table 4.

Table 4: Post Measure 50 Calculation of Tax for Education with Compression[10]

	House A	House B	Target Store
			
2012 Real Market Value	$ 350,000	$ 350,000	$ 9,000,000
2012 Assessed Value	105,163	210,326	9,000,000
AV % of RMV	30%	60%	100%
Education Measure 5 Capacity			
$5.00 x RMV =	$ 1,750	$ 1,750	$ 45,000
Permanent Education Taxes			
Rate ($/$1,000 AV)	$ 7.50	$ 7.50	$ 7.50
x Assessed Value	105,163	210,326	9,000,000
Taxes Before Compression	$ 789	$ 1,577	$ 67,500
Measure 5 Compression			
Measure 5 Capacity	$ 1,750	$ 1,750	$ 45,000
Less: Permanent Taxes	789	1,577	67,500
Compression Loss	0	0	(22,500)
Total Education Taxes Paid	$ 789	$ 1,577	$ 45,000

These Measures fixed features of the property tax system mechanically, like a spinal fusion repairs a disk problem, constraining or removing discretion from decision-makers, including voters. Elected officials may propose increases in levies (L) which implies increases in the rates (M) and voters may approve them, but only for five years.[11] See Table 5. No one can increase the tax base by more than 3 percent, short of adding to it by new construction, regardless of changes in economic and population conditions within the jurisdiction. Just as officials had an incentive to increase levies by 6 percent under the pre-Measure 5 system, officials have an incentive under the current system to increase tax assessments by 3 percent annually, except that the law constrains them from increasing the assessed value above a property's real market value.

Table 5: Tax Calculation Example with Local Option Levy

	House A	House B	Target Store
			
2012 Real Market Value	$ 350,000	$ 350,000	$ 9,000,000
2012 Assessed Value	105,163	210,326	9,000,000
AV % of RMV	30%	60%	100%
Local Option Taxes			
Local Option Rate ($/$1,000 AV)	$ 1.50	$ 1.50	$ 1.50
x Assessed Value	105,163	210,326	9,000,000
Taxes Before Compression	$ 158	$ 315	$ 13,500
Measure 5 Compression			
Measure 5 Capacity ($5 x RMV)	$ 1,750	$ 1,750	$ 45,000
Less: Permanent Taxes	789	1,577	67,500
Compression Loss	0	0	(22,500)
Measure 5 Capacity	961	173	(22,500)
Less: Local Option Taxes	158	315	13,500
Compression Loss	0	(143)	(13,500)
Total Local Option Taxes Paid	$ 158	$ 173	$ 0

When real market values decline, as they did during the economic recession that began in 2008, they can approach and depress assessed values, a phenomenon called convergence. If real market value keeps declining, then the assessed value equals real market value because, under the law, the lower of the two is the assessed value. The assessed value at which the two converged becomes, in effect, a placeholder for maximum assessed value.

If real market value keeps declining significantly but then stabilizes and the following year increases by, say, 7%, what happens to assessed value? Assessed value equals real market value until real market value reaches the placeholder, or maximum assessed value, at which point, if RMV increases more than 3%, maximum assessed value can only increase 3%. But until RMV reaches the place holder, if RMV increases more than 3%, assessed value goes with it. This can surprise property owners accustomed to assessed values that increase no more than 3%.

As if this didn't make the system a marvel, consider an additional feature: tax increment financing. A municipality wishing to rejuvenate an area may designate it as an urban renewal district. Doing so freezes the assessed value of properties within it. The municipality makes capital investments—from sidewalks to sewers—within the district to encourage new private development. The value of property in the area increases. [12]

Why do property values increase when a municipality makes capital investments in an area? Capitalization. Investing in sidewalks, sewers, paved roads, streetlights, and so on creates a stream of benefits, year after year, that accrue to nearby properties. People will pay more for properties with sidewalks than for comparable properties without. The person who owns property when the municipality makes these investments will be able to sell it for more than he or she otherwise would because the stream of benefits has been "capitalized" into higher property values.

The revenues generated by applying the tax rate to the increase—the "increment" in tax increment financing—repays bonds sold by the municipality to fund the capital investments in the urban renewal district. However, the revenues are limited by the Changed Property Ratio for new properties and the 3 percent annual growth in assessed value for existing properties. For the time period that the urban renewal district exists, increases in property values are removed from the tax base that supports general government services. Even though revenues raised to repay bonds typically fall outside of Measure 5 limits, the Oregon Supreme Court ruled in 1992 and in effect again in 2002 that revenues collected by an urban renewal agency are subject to them. They fall under the $10 "general government" cap, contributing to compression.[xvi] In general, this means jurisdictions either 1) have lower revenues to fund services they supply, or, 2) if tax rates have not reached their Measure 5 limits, everyone else pays to recoup the loss of revenues from the tax increment.

This primer describes neither all of the manipulations of Oregon's property tax system nor all of its features. The system is too complicated. Like the creature imagined by Mary Shelly, if the Frankentax could see its own reflection, it would recoil in horror. Because of its complexity and unintended consequences, it has become a creature only a mother could love.

Oregon's property tax system, unlike Frankenstein, is real and has many mothers: the 575,000 (52%) who voted "yes" on Measure 5; the 705,000 (also 52%) who voted "yes" on Measure 47; and the 430,000 (56%) who voted "yes" on Measure 50. It reduces their taxes. That's what they want. What of its other virtues, though? Is it equitable; familiar, stable and reliable; generating sufficient resources; and supportive of local control and accountability?

We are approaching the 17th anniversary of the adoption of Measure 50 and the 25th of Measure 5. Depending upon how we count, Oregon's property tax system is between a teenager and a twenty-something. Inexorably, it is wreaking havoc upon its creators. The challenge for the City Club is to decide whether the time has come to recommend tough love.

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[1] In economic theory, the value of property reflects its capacity to generate flows of benefits, such as income. For owner-occupied residential property, unlike commercial or industrial property, those flows are imputed and not subject to annual property taxes.

[2] Although the voters in Multnomah County voted against Measure 47

[3] Property subject to taxation in Oregon includes all privately owned real property (land, buildings, and improvements) and business personal property (machinery, office furniture, and equipment) unless otherwise exempt. Household furnishings, personal belongings, and automobiles are not subject to property tax. (*A Brief History of Oregon Property Taxation*, page 4.)

[4] Inserts are from Oregon Property Taxation Overview, Presentation to the City Club of Portland Research Committee, January 15, 2013 by Mary Macpherson, Vice-President, Seattle-Northwest Securities Corporation. While the tables represent actual buildings, the numbers, which are no longer current, have been modified and simplified to illustrate the mechanics of the property tax system.

[5] The 6% cap was on a permanent tax base that was not subject to repeated voter approval. Most permanent tax bases were too small to support basic services, so local government units also imposed operating levies. Those levies were limited duration (3-5 years) and had to be approved again by the voters when they expired. Measure 50 locked in these permanent levies when it converted the system to a rate-based system.

[6] Voter-approved bonds to fund capital projects are exempt from the caps.

[7] With rates capped, assessors had incentives to keep their assessments current.

[8] According to the *Oregon Counties: 2012 Financial Condition Report* issued by the Audit Division of the Secretary of State, permanent property tax rates vary between Oregon counties from a low of $0.59 per $1,000 in Josephine County to $8.71 in Sherman County, with an average permanent tax rate of $2.81 per $1,000. Multnomah County's permanent rate is $4.34.

[9] So long as real market value exceeds maximum assessed value, the maximum assessed value can increase by 3% per year even if real market value declines, as happened after 2008. Real market value can depress assessed value, but if real market value turns around and increases, as has occurred more recently, a scenario arises in which assessed value can increase by considerably more than 3% until it reaches its previous maximum assessed value. For an excellent visual explanation, see the Property Tax Fairy.

[10] The retail store pays the lesser percentage of taxes on its property as it is the only example with a compression loss but it actually pays the highest percent of taxes against the real market value: .5% of RMV whereas House A and B pay .23% of RMV and .45%. Note that owners of commercial and industrial properties can depreciate the value of buildings, which is why real market and assessed values can be the same.

[11] Unless voting in a general election, approval required a double majority—a majority of voters when at least 50 percent of registered voters vote—but that requirement has been removed. By statute, the dollar value of proposed increases may not exceed twenty percent of the value of the jurisdiction's tax base.

[12] This is called "capitalization," where the property owner at the time of the investments captures the value of the stream of expected benefits. It is also why properties in school districts with reputations for excellent quality can sell for more than comparable properties in other school districts. Capitalization can occur when comparable properties are subject to different tax burdens, too. If you could choose between two houses identical except that one's annual tax bill is $2000 and the other's is $4000, wouldn't the first be more attractive? You and others would be willing to pay more for it. If you owned the first house, wouldn't your realtor advise you to ask a higher price and tell the owner of the other to reduce the asking price, given the competition?

If a municipality designates a building as a historical treasure and encourages maintaining it by reducing either its assessed value or the tax rate applied to it, that will increase its sale price, again because of capitalization of the benefits of lower tax burden. The building still receives police, fire protection, and other government services, but everyone else in the jurisdiction bears just a bit more cost as a result of the designation.

Indeed, if a jurisdiction exempts from taxation properties used by government agencies, not-for-profits, or religious organizations, the properties still receive public services. With a levy-based system everyone else pays just a bit more to sustain the level of service or, if they don't, the level of service declines. With a rate-based system, the revenues decline, which can lead to reductions in service.

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[i] Carlson, Richard Henry (2004) "A brief history of property tax," *Fair and Equitable* February p. 3

[ii] Ibid. p. 3-4.

[iii] ibid. p. 4

[iv] ibid. p. 5

[v] ibid.

[vi] Fisher (2010) *History of Property Taxes in the United States* http://eh.net/encyclopedia/article/fisher.property.tax.history.us

[vii] ibid.

[viii] ibid.

[ix] ibid.

[x] ibid.

[xi] Oregon Department of Revenue (2009) *A Brief History of Oregon Property Taxation* 150-303-405-1 June p. 2.

[xii] Linhares, Tom (2011) *Recent History of Oregon's Property Tax System*, December http://tsccmultco.com/graphics/Recent_History_jan_2012.pdf pp.14-15.

[xiii] Ibid. pp. 29-30.

[xiv] Oregon Department of Revenue (2009) *A Brief History of Oregon Property Taxation* 150-303-405-1 June

[xv] http://www.lincolninst.edu/pubs/1412_Property-Tax-Assessment-Limits Property Tax Assessment Limits (Policy Focus Report): *Lessons from Thirty Years of Experience. Haveman, Mark, and Terri A. Sexton, Lincoln Institute of Land Policy, 2008.*

[xvi] Oregon Deparment of Revenue 2009: 8-9

Research methodology

Your research committee examined the consequences of the current system, intended and not. It reviewed suggestions for mitigating consequences that some in our community find unpalatable. It reviewed the cost and benefits of adopting these suggestions. It reached conclusions and offers recommendations.

The Research Board provided the committee with a list of potential witnesses who have expertise or opinions about the property tax system. The committee began by choosing from this list. Seeking a balanced and informed perspective on the issues, we asked each witness to suggest other witnesses who could provide the committee with diverse views. Your committee interviewed thirty-four witnesses; see Appendix 1.

We provided each witness with a set of questions. Appendix 2 lists the generic set of questions with which we started, focusing on the history of Oregon's property tax system, consequences, potential improvements, and processes for implementing them. As we learned the history and mechanics, we stopped asking witnesses about them. We asked witnesses with special expertise more technical questions. We focused on identifying potential improvements and rationales for them.

Witnesses included tax assessors; current and former elected and appointed representatives from state and local government; lobbyists for services funded by property taxes; proponents of property tax limitations; proponents of changing the property tax system; and policy analysts. The committee also surveyed assessors from throughout the State, receiving responses representing 20 of 36 counties. And the committee tracked news reports related to the property tax beginning in January 2013, and reviewed academic literature and policy analyses published by think tanks.

Findings and conclusions

The members of your committee agree: Oregon's property tax system is deeply flawed. In this section, we report six conclusions. Our findings and explanation follow each conclusion.

1. Oregon's property tax system is inequitable.

Under the current property tax system, Oregonians are subjected to six types of inequity. Three have compelling supporting evidence and three have persuasive supporting evidence, made less compelling by the system's complexity and incomprehensibility.

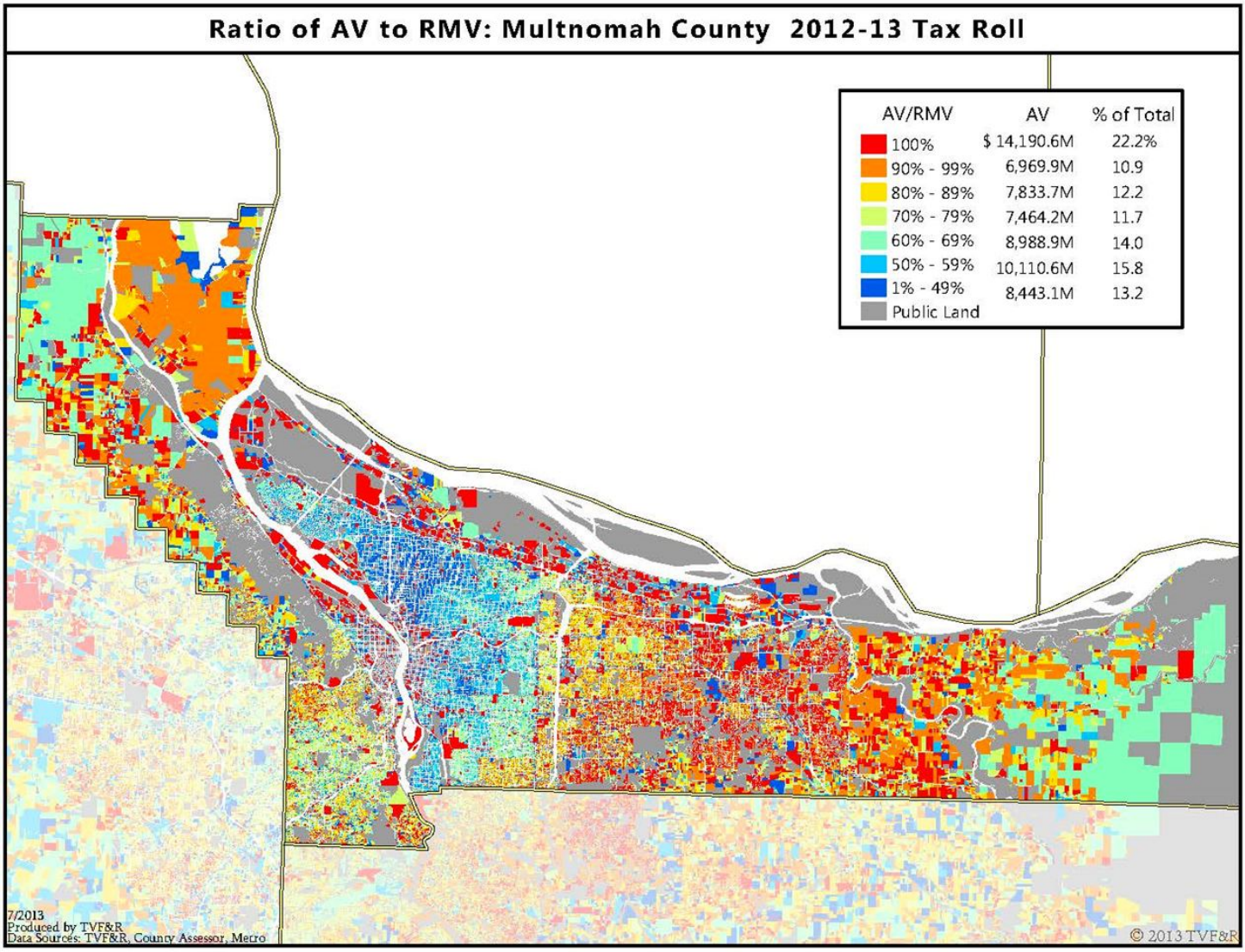
Horizontal Inequity

In the first type of inequity, owners of properties with similar real market values pay different amounts of property tax. Assessors in our survey and many witnesses recognized this. It violates the notion of horizontal equity.[i]

Refer to the examples of Houses A and B in Table 4. One factor driving the result in Table 4 is the difference in the ratio of assessed to real market property values. This can occur, for example, if property values have increased more in one neighborhood than in another and more than three percent annually since the mid-1990's when Ballot Measures 47/50 fixed assessed values and limited their rate of increase. If the tax rate applied to the same percentage of real market value that assessed value represents for Houses A and B, the tax system would treat every property and owner the same. However, constitutionally mandated tax rates apply to different percentages of assessed to real market value for different properties, possibly on the same block.

Map 1 shows the percentage of assessed to market value by block within Multnomah County.[ii] For areas in red, the percentage is 100%; orange is 90-99%; and so on until deep blue, which is 1-49%. If all properties paid taxes on the same ratio of assessed to market value, the map would be a solid color. The wide variety of colors in the map is compelling evidence of variation in the percentage of market value subject to property tax. This pattern repeats throughout the State. With one significant caveat, the map depicts a process that can result in similarly valued properties paying taxes on significantly different percentages of real market value because the taxable value of the property is delinked from real market value.

Map 1



The significant caveat: the map does not tell us whether properties with similar real market values are paying more or less in taxes. First, taxes are levied on assessed values, which do not necessarily bear consistent relationships to real market value. Second, Measure 5's limits and compression can reduce the actual taxes paid by one property rather than another. For example, properties in red, even if they have similar market values, could be paying different amounts of tax because one is in compression and the other is not. Total tax paid depends on the consolidated tax rates of all of the tax jurisdictions in which each property is located.[1]

Regardless of this difficulty, Multnomah County is experiencing an acute degree of horizontal inequity, as are Deschutes, Jackson, and Sherman Counties.[iii] Multnomah County's inequities likely result from its larger, more diverse, housing market relative to the other counties. The recent recession reduced these inequities in cases where real market values collapsed to the levels of assessed values. As the recovery continues, however, the market value of nearly all residential properties will exceed their assessed values. Inevitably, some neighborhoods will be more popular than others, meaning their market values will increase more rapidly, likely in excess of three percent, eventually exacerbating horizontal inequity because assessed values cannot increase more than three percent per year.

In general, property tax revenues have supported local services whose benefits accrue to most people's largest investment, their homes. To the extent that the property owner benefits, the property owner pays.[iv] Property owners know that better neighborhood schools and lower crime rates make their properties more attractive and valuable, providing the rationale for their paying higher property taxes. The tax connects costs with benefits.

Increasingly, Oregon's property tax system disconnects them: property owners whose property and the public services they receive are similar can pay different property taxes.

Do Oregonians care about horizontal inequity? At one time, they did, requiring in Section 32 of the Constitution uniformity of taxation across categories of subjects.[2] However, Measure 5 anticipated the emergence of horizontal inequities, especially in urban areas. In approving it, voters explicitly exempted the property tax from Section 32. Your committee questions whether Oregonians will continue to countenance this inequity, once they understand—as your committee does—its extent and rate of growth.

"Equalization" of K-12 Funding

A second type of inequity arises from the intersection of Oregon's property tax system with the State's equalization formula for expenditures on K-12 education. The formula for equalizing funding across school districts is not defined in the constitution. Rather, the legislature interpreted equalization to be expenditure per pupil. The courts upheld this without defining the meaning of equalization or precluding other interpretations.[v]

The evidence of a resulting inequity is compelling. Under Measure 5 the State allocates funds to local districts through a general-purpose grant plus a transportation grant minus local revenues. When Measure 50 reduced property tax rates below their 1995-96 levels and restricted the rate at which maximum assessed values could increase, the State—by then using income tax revenues to provide the majority of funding for schools—redistributed revenues to districts with particularly low rates. School districts that tax themselves at higher rates, presumably to provide higher levels of service, can lose State funds. Because the State's backfilling distributes funds to districts rather than to individual schools or students, we have no assurance that it helps underperforming schools or students, regardless of whether a district has high or low tax rates.

Disproportionate Burdens of Administrative Costs

We found compelling evidence for a third type of inequity: jurisdictions with authority to levy a tax on property do not bear equal or even proportionate shares of the costs of administering the tax. Oregon's 36 counties bear primary responsibility. Different assessment offices have different resources. As a result, they do not all have the staff to collect, retain, and analyze the same information. In addition, the Oregon Department of Revenue's Property Tax Division conducts a number of functions that both administer aspects of the system or support the counties' efforts. Other jurisdictions, such as cities, schools and special districts, do not pay for the services directly.[3]

Vertical Inequity

The evidence is persuasive but not as compelling for a fourth type of inequity: the burden of the property tax increases as property owner resources, notably income, decline.[vi] Therefore, it is a regressive tax that violates the notion of vertical equity (the tax burden should increase with the payer's ability to pay).

However, some academics have argued that it is neutral because people sort themselves into jurisdictions where the property tax pays for the level of benefits they prefer. The current consensus among academics is that the property tax is progressive because it falls on capital, which is more likely to be owned by those with higher incomes.[vii] The incidence of the property tax is one of the most hotly debated questions in public finance.

Acknowledging the debate, your committee comes down on the side of believing the tax is regressive for two reasons.

- Most states, including Oregon, tax only "real" property, like land and buildings, not intangible property, such as financial instruments and patents that generate income and wealth, and which are likely to comprise an increasing share of investments as wealth increases. As a selective tax, the tax on real property will fall more on those for whom property is their largest investment.
- Circuit breakers, exemptions, or deferrals until sale reduce property taxes for categories of tax payers, such as elderly owners who no longer earn incomes or renters with low incomes. These steps mitigate the regressivity of property taxes. However, Oregon's exemptions and circuit breakers for owners with low incomes have expired.

Gentrification

A fifth type of inequity also is possible but we are not fully persuaded: the property tax system contributes to gentrification. Whether it does is a legitimate question. Gentrification in its non-pejorative use refers to redevelopment and reinvestment in a community, making it more attractive. Gentrification in its more pejorative use refers to middle to upper income residents moving into neighborhoods that are becoming more attractive, displacing lower income residents who resettle in neighborhoods with fewer services and poorer infrastructure.

In either use, gentrification could be entwined with property taxes. First, because they apply to both land and structures, property taxes can increase if owners improve their structures; the tax might be a disincentive to do so, contributing to neighborhood deterioration that is a precursor to redevelopment or reinvestment. Second, one hears anecdotes that middle to upper income homebuyers who have the resources to support a particular monthly payment for mortgage and property taxes will be attracted to neighborhoods where both the real market values and, subsequently, property taxes, have declined. However, no one has demonstrated conclusively this or any other causal effect of the property tax on gentrification.

On the other hand, the property tax system is not immune to the effects of gentrification. Ballot Measure 50 fixed in time taxable assessed values of properties, aside from the 3% increase allowed annually. Gentrified areas saw their real market values increase considerably more than 3% while other areas did not. A renovated or refurbished property in a gentrified area could incur tax on a considerably smaller portion of its real market value, while a comparable property in a stable neighborhood could incur tax on closer to 100% of its real market value. Almost by definition, owners of property in a municipality's "hippest" neighborhoods, if gentrified after 1997, benefit at the expense of other neighborhoods. Gentrification exacerbates horizontal inequity under Oregon's property tax system.

Different Categories of Property Have Different Tax Burdens

A sixth type of inequity concerns the allocation of the tax burden across different categories of property, such as residential, commercial, and industrial. Evidence about the impact of Measures 5 and 47/50 on this allocation proved to be persuasive but not compelling. Your committee examined the CPR (Changed Property Ratio) of various categories of property in all counties for over ten years as indicators of inequities among the categories. [viii] Prior to the adoption of Measure 50, the CPR would have been 1.00 for all categories because the assessed value and market value would have been the same. This means the percentage of real market value on which owners pay tax was the same. To that extent, the treatment of different categories of property was equitable.

Reviewing the data post Measures 5 and 47/50, we find that the CPR for improved—as opposed to vacant—industrial land tends to be 1.00, probably because companies can depreciate the value of their equipment and buildings, reducing the denominator of the CPR so it equals its assessed value. The CPR for residential property tends to be less than 1.00. Commercial property, however, tends to have a CPR lower than residential property.

Commercial properties are paying taxes on smaller percentages of their real market values than residential.[4] See Appendix 3.

Consider the example in Table 6. This supports anecdotal evidence, including responses from assessors in our survey, that under Measures 5 and 47/50 residential property owners pay more taxes. However, with the way compression works under Measure 5, actual taxes imposed may be less inequitable than the pattern of CPR's suggests. Residential properties have assessed values that are closer to market values compared to commercial properties. As a result, the smaller difference means residential properties will be subject to more compression more often. This tends to negate at least some of the inequity. In Table 6, just looking at values, the commercial property is receiving a 33% bigger tax break than the residential property. However, looking at the total taxes imposed (after Measure 5 compression) the discrepancy is only 24%.

While the impact of the property tax across different categories of property is a legitimate question, we cannot address it conclusively. First, we do not know what is equitable. Commercial and industrial properties benefit from police and fire protection, arguably less so from parks and recreation and schools. Should they bear the same burden as residential property owners? Second, we do not have the data with which to measure the allocation of the burden. The lack of data has bedeviled experts for a long time, which speaks to the complexity of Oregon's property tax system.

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[1] The map's red and orange areas indicate the areas where compression losses are likely occurring if the combined government tax rates for either schools or general government exceed the M5 rate limits of $5 and $10 respectively. The actual M5 compression losses for schools and general governments will depend upon the combined tax rates, as well as the amount of local option levies.

[2] "…and all taxation shall be uniform on the same class of subjects within the territorial limits of the authority levying the tax." [Constitution of 1859; Amendment proposed by H.J.R. 16, 1917, and adopted by the people June 4, 1917]

[3] However, the County Assessment Function Funding Assistance (CAFFA) grant program provides financial assistance to counties to carry out the assessment and taxation function. The money is collected by the Oregon Department of Revenue and distributed to the counties based on the total expenditures of each county to fund the assessment and taxation program. The grants typically cover 20% to 25% of the costs.

Funds from two sources go into the CAFFA grant account: 1) a $10 fee on all real estate transfers, and 2) a portion of the interest charged on delinquent property taxes. In 2011-12 a total of $19,390,274.68 was distributed to the 36 counties in CAFFA grants. This money is required to be used by the counties to sustain an "adequate" assessment and taxation program. The percentage of the total amount distributed that comes from real estate transfer fees versus delinquent interest varies from year to year. The interest on delinquent property taxes contributes on average 60 percent of the total amount that is collected and distributed.

If it were not for the CAFFA grant program, taxing districts would receive the delinquent interest charges. So, to the extent that taxing districts forego that income, it could be said that they contribute to the cost of running the assessment and taxation program in the counties. And if the CAFFA grants cover 20% of the cost of running the program and delinquent interest is 60% of the funding, then taxing districts are paying for 0.12% of the county's cost of providing the assessment and taxation functions (0.20 x 0.60 = 0.12).

[4] Measure 50's divorce of assessed value from real market value opened up the possibility that property tax burden could vary between classes of property. The previous Measure 5 restrictions limit the amount of tax paid

for those with the highest tax burden relative to real market value. By equalizing the treatment of those at the upper end of the spectrum of tax burden, Measure 5 moderates some of the inequities of Measure 50. For a different analysis of data from 2012 suggesting no cross class subsidy, see Lincoln Land Institute and Minnesota Center for Fiscal Excellence, *50 State Property Tax Comparison Study* (2013), pp. 9-13.

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[i] Oregon's Property Tax System: Horizontal Inequities under Measure 50, page 13

[ii] Tualatin Valley Fire and Rescue, 2012.

[iii]Oregon's Legislative Revenue Office. *Oregon's Property Tax System: Horizontal Inequities Under Measure 50*, Research Report #4-10, September 2010.

[iv] Fischel, William (2001) *The Homevoter Hypothesis: How Home Values Influence Local Government, Taxation, School Finance, and Land-Use Policies.* Harvard University Press.

[v] Interview with Michael Jordan, witness

[vi] John H. Bowman, Daphne A. Kenyon, Adam Langley, and Bethany P. Paquin. *Property Tax Circuit Breakers: Fair and Cost-Elective Relief for Taxpayers*. Lincoln Institute of Land Policy. 2009, Pages 5, 6, Figure 1.2 "Property Tax as a Percent of Income (2006)."

[vii] George Zodrow, "The property tax as a capital Tax: A room with three views," Paper published by the James A. Baker III Institute for Public Policy at Rice University, January 2007

[viii] Christine Broniak, Oregon Legislative Revenue Office, July 2013; data from the Oregon Department of Revenue.

2. Oregon's property tax system undermines local control

State government authorized its citizens to create local taxing jurisdictions to define the level of services and taxes they want. Under home rule authority, cities and some counties can make their own laws, including their own tax and fee legislation, unless the legislature has forbidden or limited the tax or fee, or State law prescribes the way in which such tax or fee may be authorized. In contrast, the legislature must specifically authorize special districts, such as schools, fire, and water, to impose a fee or tax. [i]

Table 6:Inequity Between Property Classes

CPR Verses Taxes Imposed

	Residential	**Commercial**	**% Difference**
RMV	200,000	200,000	

CPR	0.90	0.60	
AV	180,000	120,000	-0.333
General Government			
Tax Rate	11.50	11.50	
Taxes Ext.	2,070	1,380	
M-5 Limit	2,000	2,000	
Taxes Imposed	2,000	1,380	-0.31
Education			
Tax Rate	7.50	7.50	
Taxes Ext.	1,350	900	
M-5 Limit	1,000	1,000	
Taxes Imposed	1,000	900	-0.10
Total Taxes Imposed	3,000	2,280	-0.24

The intersection of Oregon's property tax system with the State's interpretation of the judicial requirement to provide equal educational services has produced a "top down" system. State funds supplement local property tax decisions but restrictions under the property tax system have transformed the State into the primary source of funding of K-12 education through income taxes.[1] So long as the State equalizes revenues by district, districts have little incentive to increase funding levels.

Shifting the costs of K-12 education to the State tends to undermine the rationale for property taxes in voters'

minds.[ii] "Homeowners' concerns about the value of their major asset makes them more attentive to the benefits and costs of education regardless of whether they have children in public schools."[iii] With the State as the primary source of K-12 funding, accountability is more distant.

The inability or unwillingness of some local jurisdictions' taxpayers to fund other government services from property taxes has resulted in the State taking responsibility for delivering them. Crook and Josephine Counties both lost timber tax revenues that had allowed them to have among the lowest property tax rates in the State when Measure 5 made rates permanent. Those counties now have found it difficult to replace timber tax revenues with revenues from property taxes. One can argue that voters should be allowed to keep their taxes low with the expectation that public services will be low.

However, eliminating functions provided by county governments reduces costs but does not necessarily reduce a County's legal liabilities. These liabilities include "everything from proper back-up for the sheriff's deputies to workplace safety for employees."[iv] Functions from planning and public safety to representing child welfare workers in legal actions have either disappeared or fallen to the State.[2]

The State might not have a compelling interest in the situation. Suppose residents and property owners from outside low tax/no or low service jurisdictions never travelled through or to them; the outside residents would never experience reduced public safety there. Or, suppose residents and property owners from outside those low tax/no or low service districts could ensure that problems resulting from low service levels, such as deteriorating public health, would not migrate to other jurisdictions. For obvious reasons, the State has a compelling interest in the situation.

This again places upward pressure on revenues collected from State income taxes, when Oregon already relies more on personal income taxes than any other state: 72 percent of total tax revenue. Revenues from the income tax change more dramatically with changes in economic conditions than revenues from property tax. This, plus competing demands for funds at the State level, makes relying on the State precarious. Indeed, state and county governments supply many government services jointly. As a result, fiscal stress at one level of government affects the others, further undermining local control.[v]

In addition, compression encourages citizens interested in a particular service to create a special district with its own permanent tax rate, as the Multnomah County Library system did, to secure a revenue stream or at least to give it higher priority than an optional levy. When that happens, coterminous tax jurisdictions can lose revenues if the total of all rates exceeds the $10 rate cap. Not only do tax jurisdictions not control their own tax revenues, the system also pits jurisdictions against each other.

And as the executive at one tax jurisdiction put it, voters approve a levy and then because of compression do not see the results they expected. This reinforces their suspicions that they cannot trust government with their money. In sum, compression exposes citizens to the diminution of public services while distorting, if not destroying, the ballot mechanism designed to safeguard against it: local option levies.

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[1] See for example Legislative Revenue Office Research Report #8-09 (October), *2009 School Finance Legislation: Funding and Distribution*, pp. 8-9. The State defines "equal" in terms of inputs, such as expenditures per pupil, rather than outcomes, such as performance on uniform exams, which are increasingly common. Equalizing expenditures, especially by district, does not necessarily equalize results because so many other variables impact the process. Alternative methods of complying with judicially mandated requirements for equalization could be more effective.

[2] Services provided by the State are funded by revenues from the State's income tax, which spreads the tax burden to other jurisdictions. Testimony of Michael Jordan witness. The State is not always in a position, however, to provide adequate services; see http://www.nydailynews.com/news/national/woman-oregon-raped-911-send-home-article-1.1353085

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[i] Testimony of Harvey Rogers.

[ii] O'Sullivan et. al. op. cit.

[iii] Fischel, ibid. p. 160-1.

[iv] Karen McGlone, "Fighting clear cuts," Oregon State Bar Bulletin July 2013, p. 20.

[v] Task Force on Comprehensive Revenue Restructuring, Final Report, January 2009, Executive summary, Page 3.

3. Oregon's property tax system fails to sustain service levels approved by voters

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Property taxes raised $5.1 billion in 2011-12, a 1.6 percent increase over the previous fiscal year.[1] Inflation increased just over 2 percent. Local government revenues tend to fall behind the costs of providing services, putting local government under significant stress, especially when inflation exceeds 5% as it did during the period from 2006 to 2008.[i] The inflexibility imposed by Measures 5/47/50 can result in services that voters approve but that government cannot fund, even if voters have demonstrated their willingness to pay higher property taxes. Thus, your committee concludes that the present system generates funding insufficient to sustain the level of services voters want.

Financial sustainability can be achieved by decreasing services or by raising revenues. Multnomah County, for example, has experienced its 12th consecutive year of service cuts, in part because the cost of providing services has risen more rapidly than property tax revenues.[ii] In FY2011-12, more than 60 percent of K-12 school districts held costly five-year, local option levy votes to fund operations or votes on bond levies to fund capital expenditures.[iii] Of course, support for K-12 schools from the State School Fund, which relies upon taxes on highly volatile personal incomes and business profits, has increased from 30 percent in 1990-91 to about 67 percent.[iv] Despite the recent increase, total expenditures on education almost certainly are lower than they would have been had Oregonians not approved Measures 5, 47, and 50.[2]

And yet, as a share of total personal income, governments in Oregon collect revenues from all sources at slightly below the national average. When considering tax collections only, Oregon ranks near the bottom. Collecting charges and fees moves Oregon to the middle of the pack.[v] Prior to property tax limits enacted during the 1990s, the percentage of property tax to personal income was fairly stable at around 5 percent. During the '90s, the percentage dropped to a range of 3 to 4 percent, where it has remained.[vi]

The Growing Impact of Compression

Crook and Josephine counties provide an early warning for *every* taxing jurisdiction in the State. While

compression might not have been a significant issue when voters adopted Measure 5, it grows over time, which has the same effect as losing a source of revenues such as the federal timber tax. A similar effect occurs when inflation in the cost of delivering services outpaces inflexible limits on each jurisdiction's ability to maintain its revenue streams. Since 2008-2009 total revenue lost to compression has increased from $51M, or 1.13 percent of all collections, to $184 million, or 4.1 percent in FY2012-13. See Charts 1 and 2.[3]

Chart 1

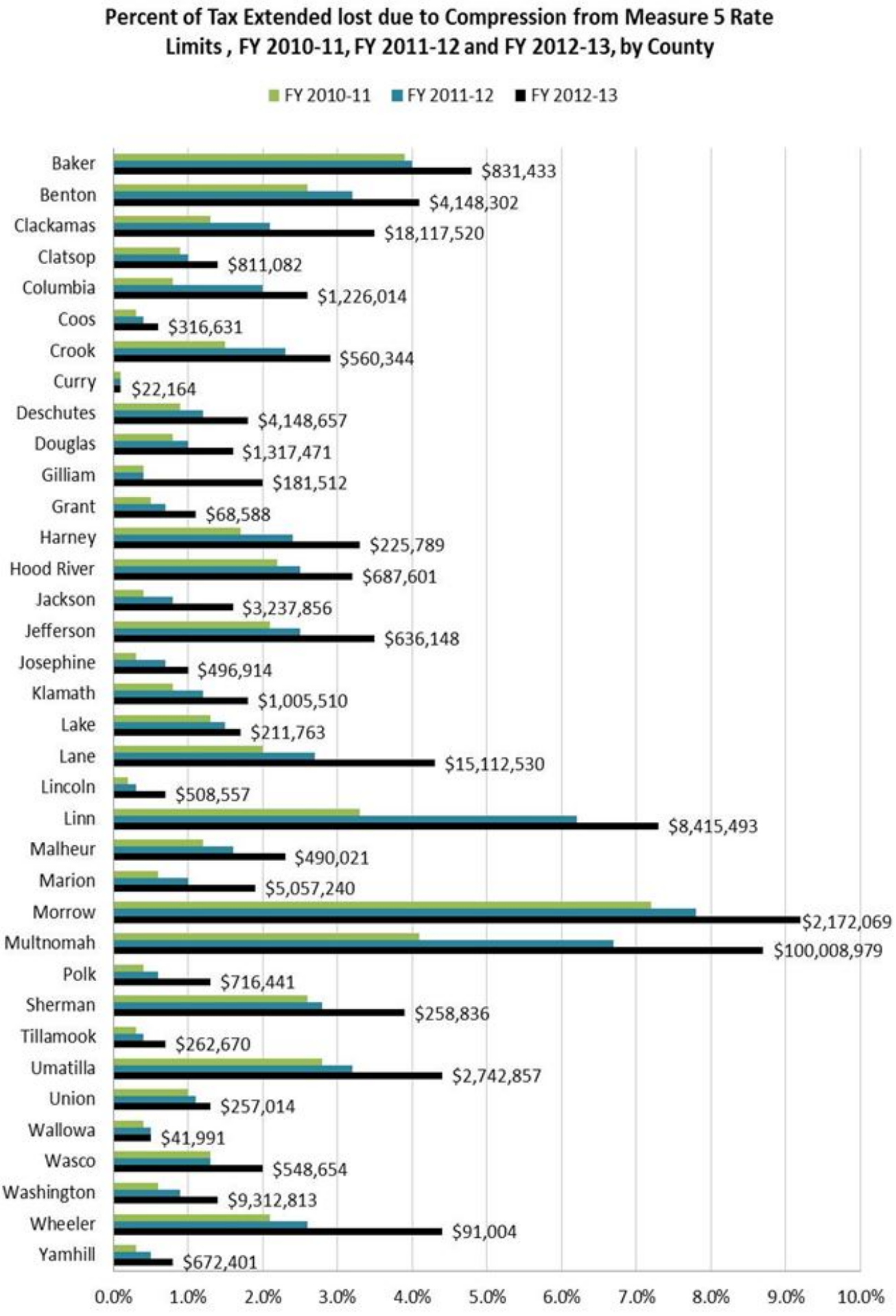
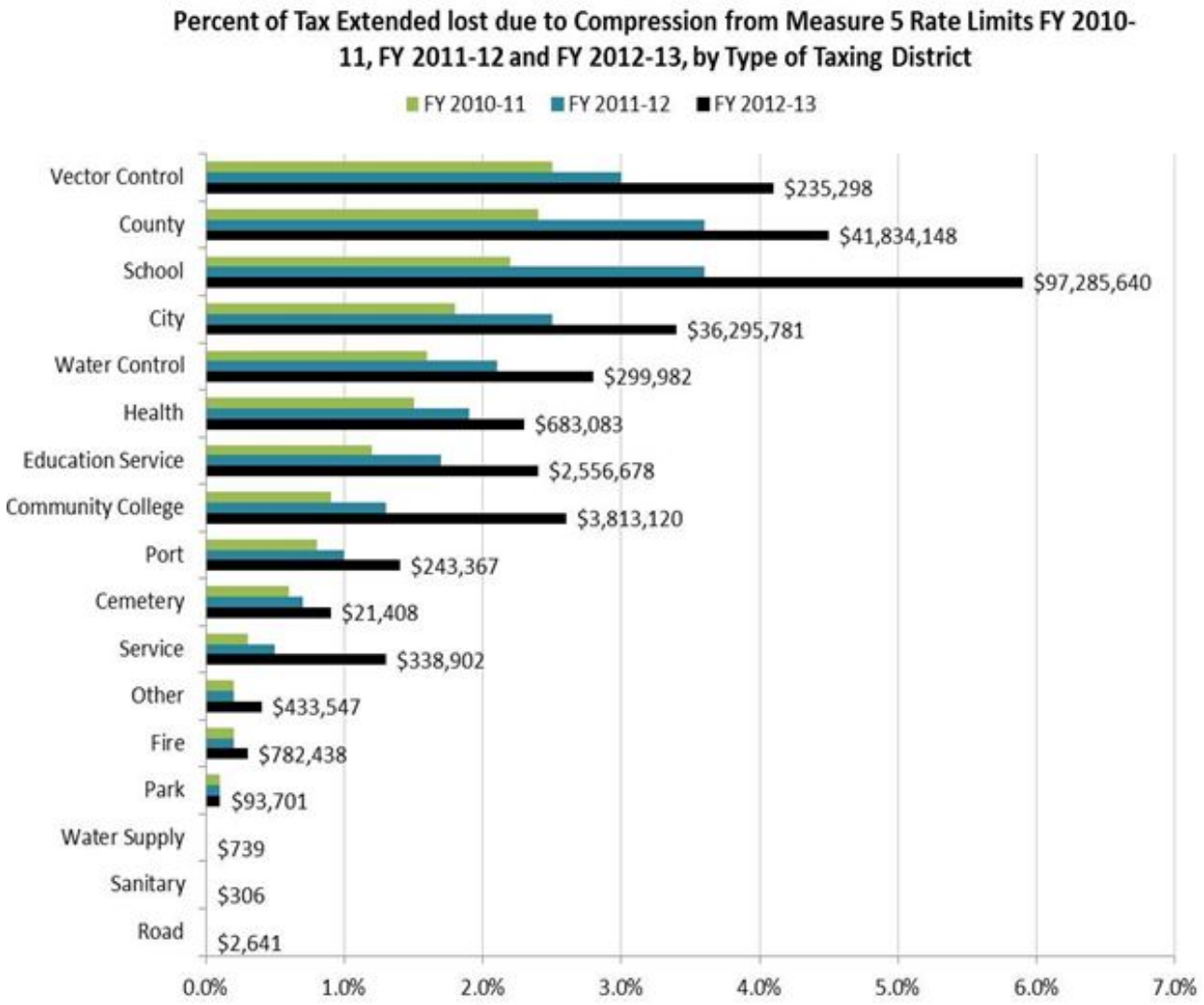

Percent of Tax Extended lost due to Compression from Measure 5 Rate Limits , FY 2010-11, FY 2011-12 and FY 2012-13, by County
FY 2010-11
FY 2011-12
FY 2012-13
Baker $831,433
Benton $4,148,302
Clackamas $18,117,520
Clatsop $811,082
Columbia $1,226,014
Coos $316,631
Crook $560,344
Curry $22,164
Deschutes $4,148,657
Douglas $1,317,471
Gilliam $181,512
Grant $68,588
Harney $225,789
Hood River $687,601
Jackson $3,237,856
Jefferson $636,148
Josephine $496,914
Klamath $1,005,510
Lake $211,763
Lane $15,112,530
Lincoln $508,557
Linn $8,415,493
Malheur $490,021
Marion $5,057,240
Morrow $2,172,069
Multnomah $100,008,979
Polk $716,441
Sherman $258,836
Tillamook $262,670
Umatilla $2,742,857
Union $257,014
Wallowa $41,991
Wasco $548,654
Washington $9,312,813
Wheeler $91,004
Yamhill $672,401
0.0% 1.0% 2.0% 3.0% 4.0% 5.0% 6.0% 7.0% 8.0% 9.0% 10.0%

Chart 2



During FY 2012-2013, Curry County had the lowest rate of compression, just 0.1%. That year, three counties suffered from compression of more than 5 percent: Linn (7.3%), Multnomah (8.7%) and Morrow (9.2%). Although these counties lost the highest percentage of their voter approved tax revenues to compression, they did not necessarily lose the greatest dollar amounts. In FY 2012-2013, three counties lost more than $10,000,000 to compression: Lane ($15,112,530), Clackamas ($18,117,520) and Multnomah ($100,008,979). Although the percentage loss in Multnomah County was second only to Morrow, in absolute dollar terms the loss in Multnomah County was almost fifty times greater. Between FY 2010-2011 and FY 2012-2013, the rate of compression increased for 35 of the 36 counties in Oregon. The rates of compression in Curry remained unchanged.

In FY 2012-13, all thirteen of the taxing district types in Oregon were in compression. Half of all cities experienced compression, losing $41.8 million; all counties experienced it, losing $34.3 million. School districts have been hit the hardest: more than ninety percent are in compression with a loss of $97.3 million.[vii] County and city governments lose the second and third most dollars.[4] The rate of compression ranged from less than 0.1% (Road, Sanitary and Water Supply) to 5.9 % (School Districts). In any given year, the range of percentages of lost revenues is not necessarily large, but year after year losses of small percentages soon consume not only fat but also muscle and bone.

Compression produces predictability in the tax bills paid by property owners, as intended, which is good for them. It is bad only for local governments, its supporters sometimes argue. The fallacy in this reasoning becomes clear as

we witness its unintended consequences, such as a proliferation of uncoordinated tax districts, local option levies that cannibalize each other, and reduced funding that can translate into reduced services. Thus, when something is bad for government, it is bad for property owners and voters who ultimately bear the burden of the unintended consequences. Caps on tax liabilities control spending no matter what changes occur in the environment, but that is not an unmitigated good. Decoupling tax liabilities from the environment also decouples them from the demand for benefits that taxes purchase.

The Impact of Convergence

Map 1 depicts a different type of pressure associated with the business cycle that can be more severe than compression. Under Ballot Measures 47/50, property must be taxed at the lower of assessed or real market value. An economic recession puts downward pressure on real property values, such as occurred beginning in 2008. Real market values can converge to push assessed values down. Map 1 depicts that happening in Multnomah County as areas become red, where the ratio of assessed to real market value becomes 100%. The phenomenon is statewide.

Called convergence, this becomes a matter of concern in jurisdictions with authority to tax because they receive lower revenues on a piece of property as a result of lowered taxable assessed value from the previous year. By implication, lowered or flattened assessed values—areas in red on the Map—that result in reduced property tax collections can raise concern among bond rating agencies about the financial capacity and management of those jurisdictions. Revenue losses due to convergence can be significantly worse than revenue losses due to compression. And to make matters worse, many assessment systems cannot separately identify or predict losses to tax revenues from convergence.[viii] As the economy recovers and real market values increase, the problem dissipates…until the next downturn in the business cycle.[5]

The notion of financial sustainability is bound up with questions about which services should be provided at what levels, which levels of government should provide them, and which services should be funded from property taxes as opposed to income taxes, consumption taxes, or fees. Answering these questions goes beyond the scope of this study. We know, however, that the system is stressed. Citizens expect basic levels of public safety and public health services from their local governments. We know that the demand and cost of these services have changed and typically increased. We know that the property tax system generates revenues insufficient to support voter-approved service levels.

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[1]Residential property accounted for 56 percent of the total tax collected, followed by commercial, 13 percent, and industrial, 7 percent. Other categories include multifamily housing, 5 percent and forest land, 2 percent. *Oregon Property Tax Statistics 2011-2012*, Oregon Department of Revenue. Page 6, Exhibit 4. http://www.oregon.gov/dor/STATS/docs/303-405-12/property-tax-stats_303-405_2011-12.pdf

[2] Court approved equalization of expenditures per pupil has resulted in higher expenditures in some individual jurisdictions.

[3] Oregon Department of Revenue; the charts do not include urban renewal revenues

[4] "Other" includes taxing districts such as library, transit, and public utilities.

[5] Comparing Map 1 with maps for previous years in Appendix 4 reveals spreading areas of concern—more red—in Multnomah County over three years, given a delayed impact of increasing property values on assessed values.

[i] Task Force on Comprehensive Revenue Restructuring, January, 2009; Lane Shetterly testimony, February 2013.

[ii] http://www.oregonlive.com/portland/index.ssf/2013/05/multnomah_county_for_first_tim.html "Multnomah County, for first time in years, not looking at significant service cuts in new budget." Dana Tims, *The Oregonian* May 02, 2013

[iii] Oregon Department of Revenue, *Oregon Property Tax Statistics Fiscal Year 2011-12*, page 36, Table 2.1 "Growth in Tax Imposed from FY 2010-11 to 2011-12 by Category of Tax and County (Thousands of Dollars)" http://www.oregon.gov/dor/STATS/docs/303-405-12/property-tax-stats_303-405_2011-12.pdf

[iv] *School Property Tax Rates*, State of Oregon Legislative Revenue Office, Research Brief 3-10, August 2010, 2.

[v] OCPP: Oregon: Where Taxes are Low, Fees are High and Revenue is Slightly Below Average.

[vi] *Oregon's Property Tax*, Legislative Revenue Office, January 2009. Exhibit 6: Property Taxes as Share of Oregon Personal Income. http://www.leg.state.or.us/comm/lro/2009_oregon_property_tax.pdf

[vii] League of Oregon Cities; Oregon Department of Revenue, *Oregon Property Tax Statistics* 150-303-405 (Rev. 3-13), http://www.oregon.gov/dor/STATS/docs/303-405-13/property-tax-stats_303-4...

[viii] Interview with the Chief, CFO, and Analyst at Tualatin Valley Fire and Rescue, July 31.

4. Exemptions from the property tax exacerbate inequities and financial unsustainability

Jurisdictions lose considerable revenue to exemptions. Jurisdictions nonetheless expend funds to cover the cost of serving exempt properties with, for example, police, fire, and other public services. Nonexempt properties pay higher property taxes to cover these expenditures. Hence, exemptions should more properly be called tax expenditures.

A total of 199,318 properties in Oregon are exempt from paying some or all of their property taxes, with a total real market value of $98.3 billion. This includes public property with a real market value of $56.2 billion, social welfare (religious and non-profit organizations) with real market value of $22.9 billion, and other exempt properties (including businesses) with real market value of $19.2 billion.[i] Other properties are exempt, including the State's farm and forestlands, which are assessed at a fraction of their $1.5 billion real market value.

According to published research, property tax relief on farmland neither preserves farmland nor prevents urban sprawl.[ii] At the same time, while all property benefits from government services such as public safety, reducing the tax obligations on agricultural land mitigates the violation of the benefit principle.[1] Agricultural land neither benefits from schools and parks nor generates costs associated with them.

Much of the exempt property in Oregon results from federal law or the US Constitution. These include federal land—52% of land in Oregon is owned by the federal government. Nonetheless, exemptions created by the State

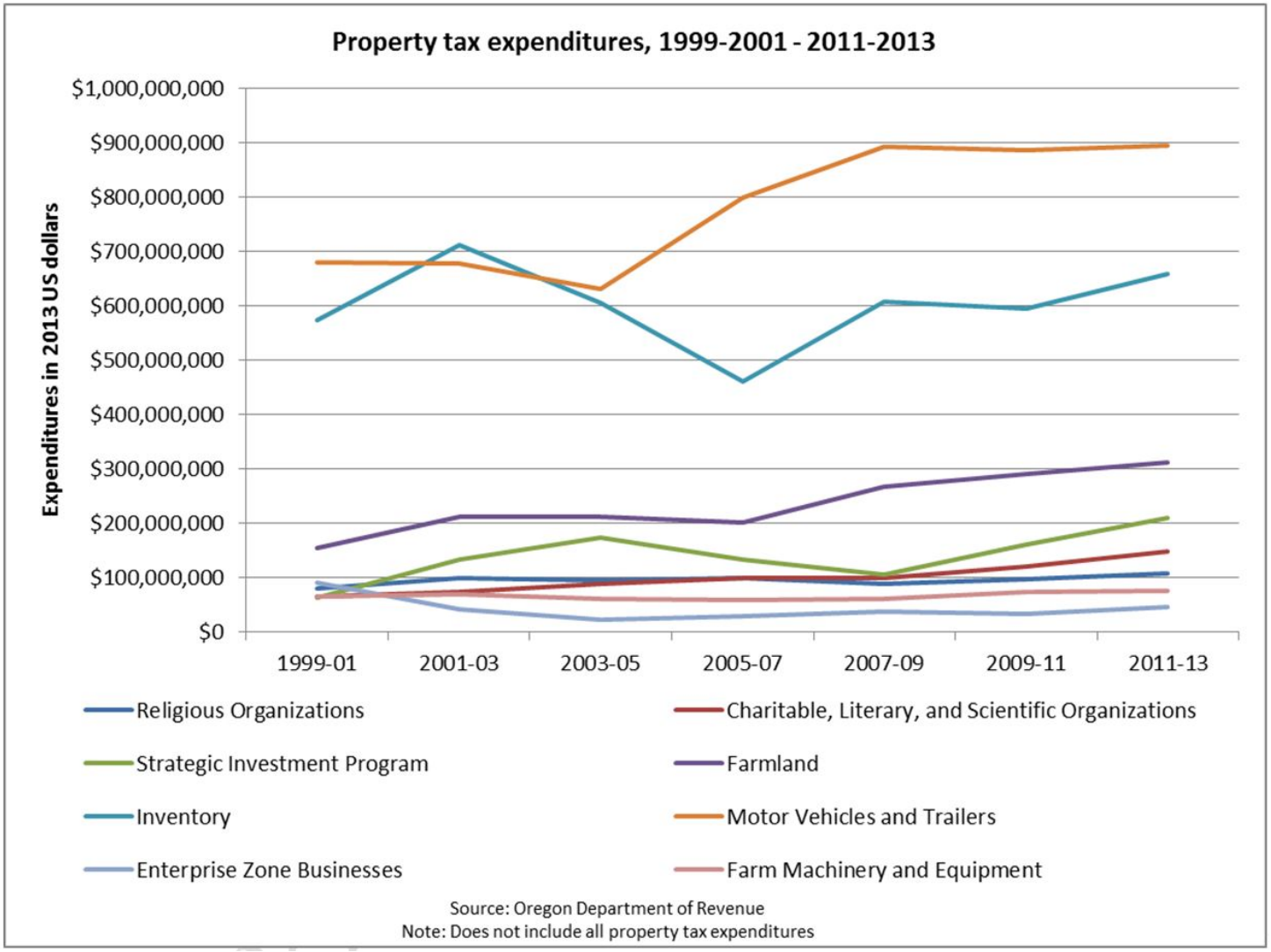
are like unfunded mandates imposed on local jurisdictions, undermining local control. For example, the State does not reimburse local governments for the full loss of revenue from exemptions to entice economic development. Whether such "strategic" exemptions promote real economic development remains unclear. They might merely encourage jurisdictions to compete with each other.[2]

As a rough approximation, public, social welfare, and business/housing/miscellaneous property exemptions represent 21 percent of the real market value of all property in the State. Not including exemptions for public property, much of which could be Federal and not subject to the tax, remaining exemptions represent over 9 percent of real market value. If the legislature removed these tax expenditures, revenues could increase to cover costs, or property tax payments by all other properties could decline.[3]

Property tax exemptions are not evenly distributed across Oregon's thirty-six counties. In FY2012-2013, Washington County had the highest number of property tax exemption accounts (38,486), followed by Marion County (33,857) and Multnomah County (33,833). The counties with the largest RMV of expenditures were Multnomah ($32,951,331,430), Washington ($13,297,156,200) and Lane ($13,099,827,340).

Chart 3 displays changes in eight of the largest tax exemptions, that is, property tax expenditures through exemptions, since 1999 (not including Personal Property, Government or Federal Land; See Appendix 5 for a chart depicting the relative size of tax expenditures). The figures in Chart 3 have been adjusted for inflation. Between 1999-2001 and 2011-2013, Motor Vehicles and Trailers and Inventory were consistently the largest tax expenditures when measured by cost. In 2011-2013, the Motor Vehicle and Trailers tax expenditure cost $894,100,000 and Inventory cost $658,000,000.[4] Several categories, while not insignificant, appear to be relatively stable over time. Several others dropped during the recent recession. Almost all appear to have been increasing since. In sum, looking at the real market value of properties for which the assessed value is zero because they are exempt, we find inequities and a large pool of potential revenues.

Chart 3[5]



[1] Some property, like vacant farm land, benefits less than others. Fischel, op.cit. p. 264.

[2] Timothy Bartik (1991) "The effects of property taxes and other local public policies on the intrametropolitan pattern of business location," in Henry Herzog, Jr. and Alan Schlotmann, Industry Location and Public Policy, University of Tennessee Press (Knoxville) p.75. Market conditions, labor quality, transportation, and accessibility drive industrial location decisions.

[3] See also Report on Property Tax Exemptions, Portland City Club Bulletin, Volume 50, #11, August 15, 1969.

[4] Most vehicles are exempt from property taxation. The exemption covers virtually all vehicles that transport people or goods over public roads including cars, trucks, buses, most travel trailers, campers, and motorcycles. Travel trailers include park trailers less than 8½ feet wide. Although travel trailers are normally exempt from property taxation, an owner may be assessed for property taxation if the trailer is used as a permanent home or for purposes other than recreation (ORS 308.880). No registration is needed in this case. Fixed-load vehicles that are not used primarily to transport people or property over public roads are generally taxable. ORS 801.285 lists five fixed-load vehicles that are exempt, including self-propelled mobile cranes. Owners of exempt vehicles are required to pay registration fees in lieu of property taxes.

[5] Inventory is exempt from property taxation. In general, inventory is tangible personal property that is or will

become part of the stock held for sale in the ordinary course of a taxpayer's business. This includes materials, supplies, containers, goods in process, finished goods, and the "for sale" inventory of retail shopping outlets, but not machinery and equipment used to produce these goods.

[i] Department of Revenue, *Oregon Property Tax Statistics FY2011-12* 150-303-405 (Rev. 5-12) Tables 1.6 and 1.7. D

[ii] David Brunori (2007), *Local Tax Policy: A Federalist Perspective*, 2nd. Ed., Urban Institute Press, (Washington, D.C.) p. 61

5. Oregon's property tax system is difficult to comprehend, undermining its legitimacy

Neither experts nor members of your committee who studied it for eight months could answer significant questions about Oregon's property tax system. Its complexity appeared as one of the system's major weaknesses cited by assessors in our survey. They find the laws pertaining to exemptions and deferrals unclear, difficult to implement and constantly changing. Indeed, it is so wretchedly complex that, according to a county assessor, one of the world's premier consulting firms declined to model it.

The time and effort required for an individual voter to understand and make decisions about property taxes is high. How can we expect voters to have confidence and trust in such a system?

Not surprisingly, property taxes are the most unpopular tax, or just behind the federal income tax in disfavor.[i] Property owners know their obligations from the tax bills they receive in the mail and do not like them. The property tax might be more unpopular if voters understood its inequities. However, property owners would have to expend special effort to go online or visit a tax assessor's office to obtain information about their neighbors' property tax bills, which is public information. More significantly, when evaluating the property tax as the worst tax, property owners seem not to take into consideration the benefits they receive from services funded by the tax. Taxpayers do not know where their money goes. No one tells them. "Price is only an issue in the absence of value," said one tax jurisdiction executive.

In general, the complexity of Oregon's property tax system makes voters unable to determine the long-term consequences of proposed tax measures. Perhaps voters understood what they were approving when they excluded the tax from Section 32 of Oregon's Constitution on uniformity;[1] perhaps not. Do they know that compression, which occurs property-by-property rather than district-wide, produces situations where owners can vote to approve taxes they do not pay, effectively imposing higher taxes on others? Do they know that their votes can increase other people's taxes and lower revenues for other jurisdictions, pitting one jurisdiction against another?[ii] Do they know that lower assessed values (Changed Property Ratios) for apartments in Multnomah County than in its neighboring counties creates an incentive to develop new multifamily projects in Multnomah County? With respect to the intersection of the property tax system with urban renewal programs, educated witnesses coming before your committee considered it opaque. It required months of determined effort by members of your committee to feel comfortable with the basic concepts.

More broadly, Oregon's property tax system is not particular friendly to citizens and property owners. Part of the reason has to do with the administration of the tax. For homeowners with mortgages, it may be incorporated into

monthly payments, which makes paying easy. But for those without mortgages, especially seniors, and those without sufficient income to itemize their income tax deductions, paying property taxes is difficult. A lump sum bill appears in the fall with a few options to spread the cost, often just before elections, focusing attention on the costs and not the resulting benefits.

[1] Section 32. Taxes and duties; uniformity of taxation. No tax or duty shall be imposed without the consent of the people or their representatives in the Legislative Assembly; and all taxation shall be uniform on the same class of subjects within the territorial limits of the authority levying the tax. [Constitution of 1859; Amendment proposed by H.J.R. 16, 1917, and adopted by the people June 4, 1917]

[i] *Oregon's Property Tax System; Horizontal Inequities under M50*

[ii] Testimony of Mary MacPherson, witness

6. Oregon's property tax system requires a bold, comprehensive overhaul

The property tax system might be understood best in the context of the entire revenue system, including income and consumption taxes and fees. Overall tax reform is beyond the scope of your committee's charge. That no easy, universally accepted solutions exist for problems of public finance in general should not keep us from addressing the problems of Oregon's property tax system in particular. Efforts to remedy the negative consequences of the property tax system by reforming other taxes or fees likely will turn those into Frankentaxes or Frankenfees.

However, Oregon's property tax system is incredibly complex. Its components are intertwined. Your committee believes recent proposals for reforming Oregon's property tax system constitute well-intentioned repairs likely to exacerbate other problems. For example, the concept of resetting a property's assessed value to its market value when it sells, which was built into Proposition 13 in California, will generate more tax revenues, even if tax rates remain under Measure 5 strictures. However, absent rapid turnover in real estate ownership, "reset upon sale" can increase horizontal inequity: similar properties will pay different property taxes simply because one sold.

During the most recent session of Oregon's legislative assembly, dozens of bills were introduced in the 2013 Oregon legislature relating directly or tangentially to the property tax system. In the view of your committee the majority of these proposed minor changes constitute well-intentioned repairs likely to exacerbate other problems. While at least thirteen called for amending the constitution, nine adjusted exemptions. A few passed and have been signed into law by the Governor. The complexity of Oregon's property tax system no doubt will continue to generate a laundry list of changes to fix problems or address concerns expressed by special interests.

When asked in our survey, many assessors noted that no single action could fix the system, a sentiment echoed by many witnesses. Your committee believes it is better to replace Oregon's property tax system with one that is less problematic, taking into account the reasons why majorities of registered voters—at least of those who voted—created the current system. We find its negative consequences to be unacceptable. We can recommend tax policies better targeted to the concerns of our fellow Oregonians with fewer adverse effects. In this we follow the advice of Daniel Burnham, an architect, creator of the master plan for Chicago, and director of works for the

1893 World's Columbian Exposition in the south side of Chicago: "Make no little plans. They have no magic to stir men's blood and probably themselves will not be realized. Make big plans. Aim high in hope and work." [i]

[i] Burnham (1907) quoted in: Charles Moore (1921) Daniel H. Burnham, Architect, Planner of Cities. Volume 2. Chapter XXV "Closing in 1911-1912;" p.147

Recommendations

Recommendations aim to solve problems. The definition of a problem frames its solution. Witnesses and authors of published research defined the problems with Oregon's property tax system differently. They recommended solutions to achieve different objectives. The Committee extracted from these a list of criteria that distinguish good from bad attributes of a property tax system. It combined these with criteria used in the City Club's 2002 comprehensive study, *Tax Reform in Oregon*.

Criteria

The Committee's complete list and explanations appear in Appendix 6. After reviewing and discussing these, the Committee selected eight against which to evaluate proposed recommendations. In alphabetical order, these are:

1. Accountability refers to the ability of taxpayers to identify and hold responsible the decision-makers who manage a jurisdiction's taxes and expenditures. Accountability for general government operating expenses tends to be high, as, for example, it would be for a local public library district. Because both State income tax and local property tax revenues fund public schools, accountability for education is less clear.

2. Adaptability refers to the ability of the system to compensate for changes in the environment, such as a jurisdiction's loss of federal timber payments, addition of revenues from new sources such as a sales tax, significant increases or decreases in population, or citizen changes in expectations about the levels of government services.

3. Clarity/Understandability refers to the ease of understanding the tax system: how it works, how decisions are made, how to appeal, and how the money is collected. Easily understood tax systems tend to promote accountability.

4. Efficiency/Administrative ease refers to the cost of administering the tax system. That includes cost to the tax administrators and cost to the taxpayers. Tax assessors incur greater costs in responding to taxpayer complaints when, for example, property values increase based on market conditions, driving up taxes based upon real market value; or, tax assessors reassess property every five to six years, generating spikes in individual property tax bills. Tax systems that require multiple ballots for voter approvals would have higher administrative costs. The cost of administering tax laws and redistributing tax revenues reduces a tax's intended impact.

5. Equity/Fairness refers to who contributes how much of the tax burden, that is, to the cost of producing government services. Equity stakeholders include homeowners, renters, tax-exempt properties, and commercial property owners with and without industrial equipment. Whether an individual believes a tax system to be

equitable depends upon how much of the burden that individual bears relative to others. The judgment is personal. As a matter of public policy, the question is: which definition of equity do you want to embrace? With respect to the property tax system, four principles of public finance apply.

a. *Ability to pay*: Distribute the cost of government proportionate to a citizen's ability to pay. This principle relates tax burden to measures such as a citizen's overall wealth, income, or consumption. As a citizen's wealth increases, the citizen has greater ability to pay, either in terms of total dollars or a higher rate of taxation. A citizen whose property has higher value presumably has greater ability to pay. This assumes that a citizen has sufficient earnings to pay taxes annually toward the cost of government. However, the property tax today is no longer the same as a wealth tax. Property taxes fall primarily on realty (land and buildings). Wealth taxes would also fall on personalty (movable property such as furnishing, jewelry, vehicles, and intangibles such as financial investments).

b. *Benefit*: Distribute the cost of government proportionate to the value the citizen places on government services, that is, the benefits he or she receives. As the value of a citizen's property increases, presumably the value of police and fire protection services increases. Benefit, however, is not always proportionate to the value of property; it might be less so for K-12 education, especially for nonresidential property. When some citizens benefit from government services but lack the ability to pay, a jurisdiction may choose to mitigate their burden, shifting it to those who can. This is not uncommon for services like public health, safety and education, where the benefits can accrue to the recipient and spillover to everyone else in the community.

c. *Horizontal equity*: The tax burden should be the same for everyone with equal ability to pay or receiving equal benefit from government services. They should pay the same amount of tax, the same tax rate, or both. This can evidence itself in requirements for uniformity: all comparable properties should be taxed at the same rate, absent exemptions to the contrary.

d. *Vertical equity*: The tax burden should increase with an individual's ability to pay or benefit from government services. A wealthier citizen pays more, either in total dollars, a higher rate, or both.

6. Neutrality refers to the impact of a tax on decisions by private actors to allocate their budgets across their economic activities. Seeking simplicity, Great Britain in 1696 taxed residences on their number of windows, leading people to board up their windows and to build houses with no windows in the bedroom stories; assuming people would have preferred some light and air, this nonneutral tax meant a loss of welfare, not just from aethetics but from harm to health.[i]

7. Predictability/Certainty refers to the accuracy with which the amount of tax can be known in advance. Taxpayers want to know the amount of tax for which they will be liable so they can budget. Government officials want to know in advance the amount of taxes to be collected so they can plan.

8. Sufficiency/Capacity refers to the ability of the tax to generate revenues to provide services expected by the taxpayers. The cost of providing government services changes with inflation, citizen expectations about levels of service, and population size and characteristics.

[i] Wallace Oates and Robert Schwab. "The simple analytics of land value taxation," in Richard Dye and Richard, Richard, eds. *Land Value Taxation: Theory, Evidence, and Practice. Lincoln Instate of Land Policy*,

Cambridge, MA (2009) p. 59

Legislative actions:

Guided by these criteria and our conclusions, your committee prepared recommendations to redesign Oregon's property tax system: levy, base, rates, and administration. The recommendations address the preferences expressed by voters who approved Measures 5 and 47/50 for predictable, restrained taxation. The recommendations also address consequences presumably unforeseen—at least in their extent—when voters approved these measures. We craft better solutions to the problems that motivated the Measures.

The second, third and fourth recommendations depend upon acceptance of the first. The fifth and sixth recommendations can be implemented regardless of the acceptance of the first four. To implement the first four, the Oregon Legislature would have to put in place statutes adopting the conceptual outlines of a new property tax system (Recommendations 2, 3 and 4). Detailed aspects of the system can be implemented through administrative regulations consistent with the statutes. The Legislature would refer to the voters a ballot measure to eliminate from Oregon's Constitution provisions placed there by the adoption of Ballot Measures 5 and 47/50 (Recommendation 1) and the voters would have to approve it. Statutory provisions would become effective only upon the passage of the Ballot Measure. This process is in accordance with the provisions of the Oregon Constitution. It would allow the voters to have before them the results of a "yes" vote on the elimination of the prior constitutional provisions. This assures that Oregon does not return to the pre-Measure 5 property tax system, which majorities of those voting have rejected.

Your committee presumes that, just as Measures 5 and 47/50 introduced changes over time, its recommendations should be introduced in phases. The committee wishes to avoid precipitous changes in either individual tax bills or government revenues, which would understandably upset property owners and government officials alike. We envision changes being introduced in a revenue-neutral manner for at least the initial year.

1: The Legislature should place a ballot measure before the citizens repealing Constitutional Measures 5 and 47/50.

Repeal the limits on tax rates, the limits on assessed value, and the exemption of the property tax from the uniformity clause. This will promote horizontal equity, especially across residential properties; local control, which is more adaptable to diverse conditions; and accountability. It eliminates the need for the CPR (Changed Property Ratio) for adding new property to the tax rolls, reducing administrative costs and mitigating the distorting impacts on economic development associated with differences across jurisdictions in their CPRs. Your Committee believes the specifics of Oregon's property tax system belong in statute, not in the State's Constitution, which should be a statement of principles rather than of rules to implement those principles. Controlling spending by mandating Constitutional limits on property tax rates, bases, and levies undermines not only the system's adaptability to changing conditions and its sufficiency, but also accountability in the democratic process, effectively protecting citizens from themselves.

2: The Legislature should by statute implement base levies, adjusted annually for inflation and population changes and subjected to periodic citizen review.

Establish a base levy for each tax jurisdiction but allow the base levy to adjust annually for changes in prices and in population. Require periodic approval of the base levy by popular vote in no less than 3 and no more than 10 years, subject to the discretion of the governing body. To avoid voter fatigue, limit popular votes to primary or general elections, even if that risks ballot fatigue. If the popular vote fails to approve the base levy, the levy reverts to its level in the year prior to the election. The right of citizens in a jurisdiction with taxing authority to propose a base levy through a ballot measure remains. This will improve the system's adaptability, financial sustainability, understandability and accountability.

The recommendation could look like this (CPI is Consumer Price Index; Pop is population)[1]:

$$\text{Maximum levy}_{\text{budget year}} = (\text{Permanent levy}_{\text{base year}}) \times (\text{CPI}_{\text{current}}/\text{CPI}_{\text{base year}}) \times (\text{Pop}_{\text{current}}/\text{Pop}_{\text{base year}})$$

If prices and population change, this indexes the last authorized permanent levy to bring it into line with the current purchasing power of the dollar. Levies will adjust to high or low population growth and to high or low inflation periods, two of the primary drivers of the cost of government, without requiring the cost of a popular vote. It reduces the incentive for elected officials to "use it or lose it" that was associated with the 6 percent allowable growth rate of the levy pre-Measure 5 because the base remains the last permanent levy, not the last year's.

This recommendation limits the growth of government expenditures—one of the objectives of Measures 5, and 47/50—to factors largely outside the control of government officials. Within these constraints, government officials retain incentives to budget efficiently. Because rates of population change and inflation change slowly, tax bills for property owners will be reasonably predictable, although not as predictable as under the current system's fixed rates and maximum increases in assessed values.

This recommendation reduces the cost of administering taxes by mitigating the need for optional levies. It reinvigorates the ballot mechanism and accountability by focusing attention and debate on the purposes of government spending rather than on the size and distribution of the tax burden. Voters should be allowed to match the level of services they want with the taxes they pay. A levy-based system provides a consistent, voter-approved revenue stream that enables governments to meet voter demand for services. The proposed version of a levy-based system is a better way both to manage the system and to improve its understandability. Voters have to decide how they want to assure the financial sustainability of the services and service levels: increase revenues or decrease services.

[1] Alternative indices could be the Producer Price Index; see http://www.bls.gov/ppi/ppicpippi.htm; or, if a technically acceptable version can be identified, a local government price index. Minnesota will be implementing a version of this concept to stabilize payments from its State government to local jurisdictions. See Doug Grow, "Minnesota mayors say LGA changes finally will bring budget stability" *Minnesota Post*, 06/20/13, http://www.minnpost.com/politics-policy/2013/06/minnesota-mayors-say-lga-changes-finally-will-bring-budget-

stability.

Few states have pure levy-based property tax systems. For an overview of state tax and expenditure limits from 2010, see http://www.ncsl.org/issues-research/budget/state-tax-and-expenditure-limits-2010.aspx. References suggested by Professor Fred Thompson, Director of Willamette University's Center for Governance and Public Policy Research.

3: The Legislature should by statute apply property tax rates to a rolling average of real market values.

Tax real market values, eliminating compression and convergence, but applying a five-year moving average. Factors beyond citizen and government official control influence real market values, such as inmigration to a neighborhood that increases property values, or the opening of a commercial center in a neighboring jurisdiction that reduces the value of comparable properties within the jurisdiction.[i]In times of increasing property values, using a rolling average increases the capacity of the tax system while mitigating unpredictability and uncertainty for both property owners and officials in tax jurisdictions. In times of decreasing property values, this contracts the capacity of the tax system in line with economic conditions but less precipitously.

A moving average is commonly used with time series data to smooth out short-term fluctuations and highlight longer-term trends or cycles. Instead of looking at the current price of a property, the moving average provides a broader view and softens the effect of any price spikes or dips. Real market values for the past five years, say from 2008 to 2012, would be summed and divided by five. The next year, the 2008 value would be deleted and a new value for 2013 would be added. Appendix 7 illustrates the reduced range of variability by using a moving average. The concept strikes a better balance than placing all of the risk of a change in property values on the owner, as can happen in an unconstrained levy- or rate-based system, and all of the risk of sufficiency on government officials, as happens under Oregon's current system. The process is relatively clear and the cost of implementing it should be nominal. In general, this recommendation increases the system's equity, capacity and adaptability to changing conditions in communities while mitigating precipitous changes in individual tax bills, one of the objectives of Measures 5 and 47/50.

[i] Shiffrin, ibid. p. 250.

4: The Legislature should create a task force to prepare recommendations for re-establishing local control over funding of K-12 while satisfying equal educational opportunity.

The Legislature should create a task force to rebalance competing interests: local control of education, including

taxation, and equality of education on a statewide basis. The State's interpretation of the judicial requirement for equality—essentially, an input: equal funding per student on average within districts—in combination with Measure 5's restrictions on local funding for K-12 education fundamentally changed the dynamics of property taxation. Voters perceive K-12 education to be a local benefit and they should be reconnected to decisions about it. This recommendation promotes accountability, clarity, and equity in terms of the benefit principle, a primary justification for using the property tax.

Your committee found this issue to be controversial and challenging but unavoidable. However, during the past decade, new state and federal approaches to K-12 education have shifted from inputs—dollars—to outcomes—student performance, potentially facilitating new funding approaches. This justifies the Legislature revisiting the intersection of its policies on education and property taxation. [1]

[1] Although many approaches exist, the State might, for example, better target state funds to schools that do not meet common performance expectations, thereby assuring equal educational opportunity. At the same time school districts could have more authority to determine the quality and support for education within their districts, knowing that if they increase funding in their districts, they will not necessarily decrease the amount of state funding for their districts.) (See Dave Hunnicutt, President, Oregonians in Action, email July 2, 2013; also William Fischel, "The median voter and school finance reform," in Bell, Brunori, and Youngman.) Jurisdictions could experiment, offering citizens a variety of choices about public service performance and costs. (See Oates in Bahl, Brunori, and Youngman, ibid. p. 20)

Different states are implementing different definitions of equality, which are political decisions. The result could be an amalgam of Oregon's Quality Education Model (http://www.ode.state.or.us/superintendent/priorities/2012-qem-final-report-8-1-2012-.pdf), and approaches in other states, such as in Washington following the McCleary decision (McCleary, et ux., et al. v. State of Washington, 84362-7; http://www.leg.wa.gov/JointCommittees/EFTF/Documents/JTFEF%20Final%20Rep...)

5: The Legislature should scrutinize and scrub exemptions of property from the tax base, which should be treated as tax expenditures. Subject them to a means test and review them periodically.

Property tax exemptions should be reconsidered in a systematic fashion, especially as part of an overall reconstruction of Oregon's property tax system. In the view of your Committee, absent compelling public policy reasons and more transparent ways to support activities, the legislature should limit exemptions. Indeed, cities across the nation have begun asking nonprofits to pay for services.[i] If reducing exemptions imposes a burden on property owners with low incomes, then the legislature can explore other options, including basing exemptions on a means test to rectify inequities. [ii]

This recommendation promotes equity, which dictates that property owners contribute toward the cost of services from which they benefit. However much properties merit exemption because their intended purposes serve

legitimate social objectives, such as education or low-income housing, eliminating them can reduce property tax rates for everyone without reducing the total revenues. This also reduces the volatility of property tax bills even if property values change; increases the efficiency of tax administration, and improves the clarity of the system and, thereby, accountability of decision-makers. As an option, schools and nonprofits could pay lower rates than other properties in recognition of their providing a public good. The legislature could consider expanding the property tax to personal property, the largest category of exemptions, but few states do that if only because of the exorbitant administrative costs.

[i] "Cities ask tax-exempt group to pay for services." *StarTribune*, January 27, 2013. http://www.startribune.com/local/188619381.html

[ii] John H. Bowman, Daphne A. Kenyon, Adam Langley, and Bethany Paquin, "Property Tax Circuit Breakers: Fair and Cost Effective Relief for Taxpayers. *Lincoln Institute of Land Policy*, 2009, page 4.

6: The Legislature should by statute improve the equity and efficiency of property tax administration.

First, jurisdictions should contribute to the costs of administering the property tax system. The cost of assessing property values falls largely on Oregon's counties, although the boundaries of special districts with the authority to tax might not be coterminous with county boundaries. As a matter of equity across taxing jurisdictions and efficiency in administering property taxes, all should contribute to the cost of assessment, perhaps in proportion to which a jurisdiction's revenue raised is a percentage of all revenues raised in each county.

Second, allow property owners who qualify under a means test—not just seniors, which is current practice in the State—to defer payment with interest until time of sale.[i] Increasing tax bills can pose a problem for owners who purchased homes based on the maximum monthly payment that the household could afford and then experience higher property values and taxes. An advantage of this recommendation over a homestead exemption, which removes property from the tax base, is that owners who benefit from public services eventually pay for them, improving equity in the system. Another advantage is that it softens the impact of changing from an assessed to real market value system, which, even if designed to be revenue neutral and implemented over time, can hurt property owners with lower incomes. [1]

Third, centralize the assessment function to capture potential gains in efficiency, as some states and nations do, although one assessor expressed concern about that because the software one county used did not easily adapt to the situation in another. And for good or ill, people might prefer to appeal an assessment at the county seat rather than in Salem. Alternatively, the State could establish standards and monitor performance of all assessment offices, allocating the cost across jurisdictions with tax authority served by each office.[2]

Fourth, implement frequent, if not annual, reassessment of property with quality thresholds.[ii] Because of their labor intensity and associated costs, physical reassessments typically have occurred several years apart. In the interim, assessors make statistical adjustments based on a multiplier. Assuming annual reassessments continue to be infeasible, large scale electronic databases developed in recent years, including Zillow, MLS, and Google Earth

might allow assessors to create more refined and accurate interim measures, which makes for a more equitable system.

Fifth, make it easier to pay taxes by instituting regular, automatic withdrawals from their checking accounts throughout the year. Property owners could be allowed to opt out if they prefer to pay the taxes in a lump sum. This improves the administrative ease and predictability of the system for citizens.

Sixth, legislation and ballot measures on property taxes should spell out in plain language the consequences of "yea" or "nay" votes so citizens can understand the impact of their votes on the benefits they will receive and the taxes they will pay. Debates over property taxes tend to be not about whether citizens are receiving value for their money but about ways to reduce the tax. Citizens make few purchases in their lives that so disconnect their costs from the benefits they receive as does their purchase of government services supported by property taxes. This is complicated by the difficulty of demonstrating systematic, sustainable relationships between dollars expended and the quality of public services. Nonetheless, the debate should be not only about the level and incidence of taxes but also about the type and levels of services citizens support. This will improve accountability and understandability in the system.

[1] Conceivably, a property's value could decline sufficiently to create a loss for the tax jurisdiction when time came for collection. Or, if property values fall, liens placed by the jurisdiction in lieu of tax payments could lead to mortgage defaults and tax difficulties. O'Sullivan et. al. ibid. p. 141. In the modern era of sophisticated financial services that spread risk, it would seem possible to create an instrument to cost-effectively balance the interests of the property owners and the community. For example, allow owners who qualify, especially senior citizens, to participate in a form of "reverse mortgage." By working through a financial institution, it could create a stream of payments until the time of sale.

[2] See the website of the International Association of Assessing Officers for surveys of practices (www.iaao.org).

[i] Arthur O'Sullivan, Terri Sexton, and Steven Sheffrin (1995) Property Taxes and Tax Revolts Cambridge University Press, NY, p. 87

[ii] Alan Dornfest, "In search of an optimal revaluation policy: benefits and pitfalls," in Roy Bahl, Jorge Martinez-Vazquez, and Joan Youngman, eds. *Challenging Conventional Wisdom on the Property* Tax Lincoln Institute of Land Policy (2010) Cambridge, MA p. 102.

Future studies

City Club should study a phased process for replacing the tax on land and buildings with a land or split-value tax.

Early in the 20th Century, Oregon led the nation in adopting a land value tax.[i] A land value tax taxes only the value of the land, not the improvements upon it, typically buildings. A split-value tax taxes land at a higher rate than improvements upon it. Tax increment financing (TIF), which is the key mechanism for urban renewal programs, is a modern day application of concepts behind land value taxation.[ii]

The benefits of taxing land rather than improvements include:

> Neutrality: Because the amount of land is essentially fixed, taxing it will not distort its supply in the way that taxing work or saving can discourage effort or thrift. Rather, taxing land on the basis of its highest and best use—not current use—encourages property developers not to hoard undeveloped land.[iii] Of all major taxes, it is most friendly to growth and arguably most consistent with Oregon's ethos of development by, for example, encouraging infill in urban areas and decreasing urban sprawl.[iv] It also removes a disincentive to maintain and improve structures and, thereby, mitigates against the deterioration of neighborhoods associated with gentrification.
>
> Equity: In general, a land value tax conforms to notions of ability to pay, horizontal equity and vertical equity. The burden of a land value tax falls primarily upon the owners of land, which tends to be concentrated among the wealthiest, although land value as a percentage of wealth decreases as wealth increases.[v] However, when implemented by a single jurisdiction in a community, raising the tax on land while cutting the tax on improvements can benefit landowners.[vi]

A few states, notably Pennsylvania, and several nations, including Australia, New Zealand, Denmark, Jamaica, Kenya, and Taiwan, have enabled tax jurisdictions to use versions of land value taxation.[vii] Property tax abatements for new construction and renovations can achieve results similar to land value taxation[viii] but a full review of a system based on land value, which is beyond the scope of our study, makes sense. The proposal to create a Task Force on Land Value Taxation to compare alternative methods of property taxation received a public hearing in the last session of the Oregon legislature;[1]it merits approval.

City Club should study the use of performance management in local government to educate the public about the benefits they receive for the taxes they incur.

Your committee heard about ways to cut, allocate, and administer property taxes, which are the prices of public services and are relatively straightforward. We heard less about the consequences of tax cuts on the levels and allocations of public services, which are not straightforward. Discussing taxes often proceeds without discussing the benefits they generate, such as public health and safety; parks and recreation; urban planning; and K-12 education. It's as if citizens want the services that governments provide but do not want to pay for them. A more benign explanation is that citizens do not connect the public services they want with their tax obligations. They see their bills, perhaps indicating how many dollars go to the county, to the city, to the library district, and so on with little indication of what they receive in return. How can they decide whether budgets or taxes are sufficient? It might be a citizen's responsibility to ask what they are receiving. Regardless, it is government officials' responsibility to tell.

While no pretense need be made that actual tax payments are tied to actual benefits, an equitable tax system embeds some relationship between taxes and services.[ix] Indeed, the hallmarks of an equitable tax system include explaining the impact of government budgets on taxpayers.[x] The impacts that matter are not the *outputs*, such as the number of acres of parks, of building permits issued, or of fire alarms or police calls responded to. The impacts that matter are the *outcomes*, such as the safety and durability of new construction, accessibility and use of parks, and the crime rate and response time to emergencies. Outcomes—performance on what matters to citizens—are more difficult to measure than tax rates and tax payments. Outcome changes tend to be less immediate and less visible than tax changes. Still, some jurisdictions are making progress, both in terms of reporting to their citizens and encouraging a culture of citizen-centric performance management by government officials who are spending property tax dollars.[2]

Your committee encourages City Club to initiate a research study on using and reporting performance measures in government, at least for the City of Portland, with the objective of building trust, confidence, and accountability.

[1] HB 2509; HJR23, which was referred to the House Revenue Committee, proposed amending Oregon's constitution to allow local districts to adopt split-rate taxation.

[2] See for example www.performance.gov, www.governing.com, www.portlandpulse.org, and http://www.scottsdaleaz.gov/Assets/Public+Website/finance/Archive/FY+2011-12/FY_2011-12_Annual_Report.pd

[i] *George Haynes, "'People's rule' in Oregon," 26 Political Science Quarterly 1(March 1911) pp. 32-62*

[ii] Wallace Oates, "Local government: An economic perspective," in Bell, Brunori, and Youngman, ibid. p. 21.

[iii] http://www.economist.com/news/finance-and-economics/21580130-governments...

[iv] Oates and Schwab, ibid. p. 68

[v] Elizabeth Plummer, "Fairness and distributional issues," in Dye and England, ibid. p. 98

[vi] ibid. p. 71

[vii] O'Sullivan et. al. op. cit. p. 31.

[viii] Bourassa, "The U.S. experience," in Dye and England, ibid. p. 17

[ix] Steven Shiffrin, "Fairness and market value property taxation," Martinez-Vasquez, and Youngman, ibid. p. 253

[x] Dornfest, ibid. p. 104

Closing Statement

Rampant and growing inequities, deteriorating comprehensibility, and increasing inflexibility and unresponsiveness to community preferences: the metaphor of Mary Shelley's Frankenstein describes well enough the evolving, unintended consequences associated with Oregon's property tax system. Your committee sought without success to craft a property tax system to which the metaphor of Superman—fighting for social justice, righting wrongs, and confronting tyranny[1]—would apply. The transformation from fiction to reality requires a hybrid: tradeoffs, compromises, balancing competing objectives.

In theory, we could eliminate the property tax. Instead, a general retail sales tax upwards of 10% might produce the revenue that the property tax produces. Alternatively, a $30 per ton tax on carbon produced in the State, proposed to reduce distortionary income taxes,[i] could replace property taxes. However, it is estimated to raise $1.1 billion, less than 20% of the revenue generated by the property tax. In practice these approaches, like increasing reliance on Oregon's income tax, are problematic. The property tax in some incarnation will be part of our lives for the foreseeable future.

It is time to redesign the system, mitigating the less desirable consequences of the well-intentioned repairs crafted during the past twenty-five years. The redesign should be a better fit for the problems faced by property owners and officials. If the problem is unpredictable property tax bills because of rapid increases in assessed values, then mitigate the surprise while retaining the principle that benefits accrue to property in proportion to its value. If the problem is high property tax bills, then reinforce the principle of local control rather than saving local voters from themselves by having state legislators battle over allocating revenues to competing interests. If the problem is an unfair burden on owners with low or fixed incomes, then defray their payments until they are in a position to pay, such as at time of sale.

Your committee's recommendations address reality. They respect the concerns expressed by Oregonians who acted in good faith when they approved Measures 5, 47, and 50. Oregon's system of property taxes to fund government services has suffered from economic, demographic, social and market trends. Your committee addressed legitimate grievances about the system's unpredictability, inefficiency, and excessive tax bills while improving its equity, sufficiency, comprehensibility, and accountability. There are no perfect solutions. If the State implements your committee's recommendations, the property tax system will recover the virtues that justify it: familiarity and stability; reliability; cost burden proportionate to benefit; local control; and visibility and accountability.

[1] Known to readers of a certain age as: Faster than a speeding bullet, more powerful than a locomotive, able to leap tall buildings in a single bound. Who disguised as Clark Kent, mild mannered reporter for a major metropolitan newspaper, fights the unending battle for truth, justice, and the American way.

[i] http://sustainablebusinessoregon.com/articles/2013/03/psu-carbon-tax-wou...

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Appendices

Appendix 1: Witness List

Name	Title or Position	Organization
Morgan Allen	Legislative Services Specialist	Oregon School Boards Association
B. Jonas Biery	Debt Manager	Office of Management and Finance, City Of Portland
Tom Brian	Former Mayor and City Councilor, Commission Chair, and Representative	City of Tigard, Washington County
Christine Broniak	Economist	State of Oregon
Faye Brown	Chief Financial Officer	Portland Development Commission
Steve Buckstein	Senior Policy Analyst	Cascade Policy Institute
Jon Chandler	CEO	Home Builders Association of Oregon
Ryan Deckert	President	Oregon Business Association
Dan DeHaven	Management Analyst	Tualatin Valley Fire and Rescue

Michael Duyck	Fire Chief	Tualatin Valley Fire and Rescue
Tad Everhart	Attorney	St. Andrew's Legal Clinic, Multnomah-Clackamas Counties
Chris Fick	Director	League of Oregon Cities
Tom Gihring	Treasurer	Common Ground Oregon and Washington
Debra Guzman	Chief Financial Officer	Tualatin Valley Fire and Rescue
Elizabeth Harchenko	Former Director, Department of Revenue	State of Oregon
Josh Harwood	City Economist	Office of Management and Finance, City Of Portland
Gregory Howe	Attorney, Co-Author Measure 5	
Michael Jordan	Chief Operating Officer	State of Oregon
Tom Linhares	Executive Director	Multnomah County Tax Supervising & Conservation Committee
Morgan Masterman	Policy Coordinator	Portland Development Commission
Mary McPherson	Vice President	Seattle Northwest Securities
Gugun Mersereau	Bond Attorney	Hawkins Delafield & Wood LLP

Kris Nelson	Legislative Director	Common Ground Oregon and Washington
Randall Pozdena	Managing Director and Senior Economist	ECONorthwest
Harvey Rogers	Bond Attorney and Consultant	Hawkins Delafield & Wood LLP
Steve Rudman	Executive Director	Home Forward
Jim Scherzinger	Chief Operating Officer	Oregon Department of Human Services
Chuck Sheketoff	Executive Director	Oregon Center for Public Policy
Lane Shetterly	Former State Representative / Tax Reset Committee Member	State of Oregon
Carl Talton	CEO and President	Portland Family of Funds. Formerly affiliated with Albina Ministerial Alliance
Bob Vroman	Assessor	Clackamas County
Laurie Wimmer	Government Relations Consultant	Oregon Education Association
Keith Witcosky	Deputy Director	Portland Development Commission

Witnesses invited but who did not reply, declined, were unable to attend or responded by email

Bernie Foster: email exchange with staff member	Publisher	The Skanner, Portland Oregon

David Hunnicutt, by email	President	Oregonians in Action
Kevin Mannix, by email	Attorney	Salem, OR
William Sizemore	Author	Measure 47

Appendix 2: Witness Questions

1. Witness information
    a. Name
    b. Occupation
    c. Work history or background as it relates to property taxes
2. How did we get here?
3. What is fundamentally 'wrong' or 'unworkable' with the current property tax system in Oregon?
4. To what extent do these problems create:
    a. Inequity between citizens?
    b. Instability from an unpredictable level of funding?
    c. Insufficiency of funds for the needs of municipal corporations, e.g. school districts, local government?
    d. Incomprehensibility for citizens?
    e. Complexity for local governments?
    f. Other?
5. What fundamental changes are required?
6. Who, and by what methods can these changes be made?
7. What are the merits of a property tax system for raising funds for education and local – non-state – government and authorities?

8. What are the major "groups" that have a stake in preserving the current system, and why? Who has the most to gain and who has the most to lose?

9. Who else should we interview and why do you recommend them?

10. How would you fix the property tax problem, and why?

11. Is there anything we should have asked and did not?

Appendix 3: Changed Property Ratios

Improved Land in Residential, Commercial and Industrial Use

County	Year	Resid'l	Com'l	Indus	Res-Com'l	Res-Indus
Baker	2000	0.800	0.770	0.580	0.030	0.143
Baker	2001	0.820	0.770	0.980	0.050	-0.207
Baker	2002	0.820	0.783	1.000	0.037	-0.183
Baker	2003	0.848	0.758	1.000	0.090	-0.134
Baker	2004	0.867	0.788	1.000	0.079	-1.000
Baker	2005	0.878	0.810	1.000	0.068	-0.160
Baker	2006	0.877	0.796	1.000	0.081	-0.110
Baker	2007	0.864	0.802	1.000	0.062	-1.000
Baker	2008	0.773	0.770	1.000	0.003	-0.100

Baker	2009	0.705	0.594	1.000	0.111	-0.164
Baker	2010	0.723	0.604	1.000	0.119	-0.221
Baker	2011	0.773	0.631	1.000	0.142	-0.253
Baker	2012	0.817	0.678	1.000	0.139	-0.366
Baker	2013	0.866	0.706		0.160	
Benton	**2000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.653**
Benton	**2001**	**0.840**	**0.620**	**1.000**	**0.220**	**-0.270**
Benton	**2002**	**0.890**	**0.620**	**1.000**	**0.270**	**-0.227**
Benton	**2003**	**0.000**	**0.000**	**0.000**	**0.000**	
Benton	**2004**	**0.900**	**0.670**	**1.000**	**0.230**	**-1.000**
Benton	**2005**	**0.836**	**0.568**	**1.000**	**0.268**	**-0.240**
Benton	**2006**	**0.779**	**0.577**	**0.000**	**0.202**	**0.770**
Benton	**2007**	**0.747**	**0.581**	**0.977**	**0.166**	**-0.201**
Benton	**2008**	**0.634**	**0.559**	**0.875**	**0.075**	**-0.109**
Benton	**2009**	**0.621**	**0.518**	**0.864**	**0.103**	**-0.126**

Benton	**2010**	**0.653**	**0.557**	**0.908**	**0.096**	**-0.224**
Benton	**2011**	**0.730**	**0.570**	**1.000**	**0.160**	**-0.400**
Benton	**2012**	**0.773**	**0.589**	**0.910**	**0.184**	**-0.366**
Benton	**2013**					
Clackamas	2000	0.000	0.000	0.000	0.000	0.650
Clackamas	2001	0.760	0.710	0.760	0.050	-0.023
Clackamas	2002	0.770	0.710	0.740	0.060	0.081
Clackamas	2003	0.776	0.724	0.763	0.052	0.139
Clackamas	2004	0.766	0.727	0.779	0.039	-0.059
Clackamas	2005	0.738	0.720	0.768	0.018	-0.038
Clackamas	2006	0.684	0.685	0.755	-0.001	0.015
Clackamas	2007	0.600	0.647	0.700	-0.047	0.077
Clackamas	2008	0.544	0.563	0.673	-0.019	0.093
Clackamas	2009	0.555	0.536	0.647	0.019	0.100
Clackamas	2010	0.650	0.612	0.688	0.038	-0.008

Clackamas	2011	0.737	0.811	0.870	-0.074	-0.334
Clackamas	2012	0.821	0.886	0.961	-0.065	-0.488
Clackamas	2013	0.902	0.902		0.000	
Clatsop	**2000**	**0.720**	**0.730**	**1.000**	**-0.010**	**-0.499**
Clatsop	**2001**	**0.730**	**0.740**	**1.000**	**-0.010**	**-0.416**
Clatsop	**2002**	**0.770**	**0.740**	**1.000**	**0.030**	**-0.346**
Clatsop	**2003**	**0.777**	**0.769**	**1.000**	**0.008**	**-0.269**
Clatsop	**2004**	**0.766**	**0.792**	**1.000**	**-0.026**	**-0.260**
Clatsop	**2005**	**0.747**	**0.760**	**1.000**	**-0.013**	**-0.260**
Clatsop	**2006**	**0.680**	**0.742**	**1.000**	**-0.062**	**-0.256**
Clatsop	**2007**	**0.536**	**0.641**	**1.000**	**-0.105**	**-0.231**
Clatsop	**2008**	**0.473**	**0.597**	**0.890**	**-0.124**	**-0.101**
Clatsop	**2009**	**0.448**	**0.538**	**0.863**	**-0.090**	**-0.070**
Clatsop	**2010**	**0.501**	**0.533**	**0.902**	**-0.032**	**-0.125**
Clatsop	**2011**	**0.584**	**0.547**	**0.982**	**0.037**	**-0.982**

Clatsop	**2012**	**0.654**	**0.573**	**0.992**	**0.081**	**-0.395**
Clatsop	**2013**	**0.731**	**0.613**		**0.118**	
Columbia	2000	0.740	0.720	0.960	0.020	-0.243
Columbia	2001	0.740	0.680	0.990	0.060	-0.235
Columbia	2002	0.744	0.692	1.000	0.052	-0.051
Columbia	2003	0.769	0.646	1.000	0.123	0.000
Columbia	2004	0.789	0.643	1.000	0.146	-0.120
Columbia	2005	0.793	0.640	1.000	0.153	-0.110
Columbia	2006	0.777	0.640	1.000	0.137	-0.110
Columbia	2007	0.000	0.000	0.000	0.000	0.880
Columbia	2008	0.598	0.558	1.000	0.040	-0.165
Columbia	2009	0.592	0.567	1.000	0.025	-0.245
Columbia	2010	0.717	0.583	1.000	0.134	-0.386
Columbia	2011	0.755	0.600	1.000	0.155	-0.530
Columbia	2012	0.949	0.633	1.000	0.316	-0.543

Columbia	2013	1.000	0.695		0.305	
Coos	**2000**	**0.880**	**0.850**	**0.000**	**0.030**	**0.602**
Coos	**2001**	**0.890**	**0.850**	**0.000**	**0.040**	**0.710**
Coos	**2002**	**0.890**	**0.880**	**0.000**	**0.010**	**0.743**
Coos	**2003**	**0.880**	**0.890**	**0.000**	**-0.010**	**0.845**
Coos	**2004**	**0.835**	**0.828**	**0.828**	**0.007**	**0.022**
Coos	**2005**	**0.755**	**0.851**	**1.000**	**-0.096**	**-0.140**
Coos	**2006**	**0.614**	**0.787**	**0.000**	**-0.173**	**0.880**
Coos	**2007**	**0.470**	**0.614**	**0.000**	**-0.144**	**0.870**
Coos	**2008**	**0.457**	**0.613**	**0.958**	**-0.156**	**-0.157**
Coos	**2009**	**0.474**	**0.565**	**1.000**	**-0.091**	**-0.222**
Coos	**2010**	**0.602**	**0.584**	**0.000**	**0.018**	**0.000**
Coos	**2011**	**0.710**	**0.750**	**0.000**	**-0.040**	**0.482**
Coos	**2012**	**0.743**	**0.703**	**1.000**	**0.040**	**-0.591**
Coos	**2013**	**0.845**	**0.723**		**0.122**	

Crook	2000	0.850	0.770	1.000	0.080	-0.367
Crook	2001	0.860	0.750	1.000	0.110	-1.000
Crook	2002	0.880	0.790	1.000	0.090	0.000
Crook	2003	0.870	0.810	1.000	0.060	0.000
Crook	2004	0.801	0.846	0.000	-0.045	0.910
Crook	2005	0.778	0.826	0.000	-0.048	0.930
Crook	2006	0.000	0.000	0.000	0.000	0.917
Crook	2007	0.482	0.549	0.933	-0.067	-0.024
Crook	2008	0.409	0.503	0.519	-0.094	0.291
Crook	2009	0.000	0.000	0.000	0.000	0.709
Crook	2010	0.633	0.606	0.897	0.027	-0.297
Crook	2011	0.000	0.000	0.000	0.000	0.493
Crook	2012	1.000	0.945	1.000	0.055	-0.520
Crook	2013	1.000				
Curry	**2000**	**0.910**	**0.810**	**0.970**	**0.100**	**-0.350**

Curry	**2001**	**0.930**	**0.830**	**1.000**	**0.100**	**-0.249**
Curry	**2002**	**0.917**	**0.852**	**1.000**	**0.065**	**-0.178**
Curry	**2003**	**0.909**	**0.854**	**1.000**	**0.055**	**-0.091**
Curry	**2004**	**0.809**	**0.842**	**1.000**	**-0.032**	**-0.170**
Curry	**2005**	**0.709**	**0.767**	**1.000**	**-0.058**	**-0.180**
Curry	**2006**	**0.600**	**0.771**	**1.000**	**-0.171**	**-0.210**
Curry	**2007**	**0.493**	**0.589**	**0.992**	**-0.096**	**-0.262**
Curry	**2008**	**0.480**	**0.476**	**0.969**	**0.004**	**-0.269**
Curry	**2009**	**0.505**	**0.491**	**1.000**	**0.014**	**-0.306**
Curry	**2010**	**0.620**	**0.609**	**1.000**	**0.011**	**-0.378**
Curry	**2011**	**0.751**	**0.660**	**1.000**	**0.091**	**-0.475**
Curry	**2012**	**0.822**	**0.741**	**1.000**	**0.081**	**-0.570**
Curry	**2013**	**0.909**	**0.800**		**0.109**	
Deschutes	2000	0.830	0.730	0.820	0.100	-0.267
Deschutes	2001	0.820	0.750	0.750	0.070	0.080

Deschutes	2002	0.790	0.740	0.730	0.050	0.187
Deschutes	2003	0.730	0.700	0.750	0.030	0.203
Deschutes	2004	0.700	0.693	0.737	0.007	0.083
Deschutes	2005	0.694	0.683	0.727	0.011	0.093
Deschutes	2006	0.622	0.588	0.623	0.034	0.199
Deschutes	2007	0.525	0.459	0.572	0.066	0.248
Deschutes	2008	0.430	0.400	0.469	0.030	0.341
Deschutes	2009	0.460	0.369	0.475	0.091	0.305
Deschutes	2010	0.553	0.450	0.532	0.103	0.168
Deschutes	2011	0.830	0.651	0.777	0.179	-0.187
Deschutes	2012	0.917	0.794	0.982	0.123	-0.442
Deschutes	2013	0.953	0.875		0.078	
Douglas	**2000**	**0.820**	**0.760**	**0.780**	**0.060**	**-0.180**
Douglas	**2001**	**0.820**	**0.770**	**0.790**	**0.050**	**-0.100**
Douglas	**2002**	**0.822**	**0.804**	**0.832**	**0.018**	**-0.072**

Douglas	**2003**	**0.820**	**0.830**	**0.920**	**-0.010**	**-0.077**
Douglas	**2004**	**0.810**	**0.820**	**0.910**	**-0.010**	**-0.300**
Douglas	**2005**	**0.780**	**0.810**	**0.990**	**-0.030**	**-0.400**
Douglas	**2006**	**0.700**	**0.770**	**0.880**	**-0.070**	**-0.294**
Douglas	**2007**	**0.590**	**0.750**	**0.840**	**-0.160**	**-0.220**
Douglas	**2008**	**0.540**	**0.720**	**0.740**	**-0.180**	**-0.080**
Douglas	**2009**	**0.550**	**0.710**	**0.820**	**-0.160**	**-0.144**
Douglas	**2010**	**0.600**	**0.720**	**0.900**	**-0.120**	**-0.232**
Douglas	**2011**	**0.690**	**0.760**	**0.930**	**-0.070**	**-0.256**
Douglas	**2012**	**0.760**	**0.790**	**0.950**	**-0.030**	**-0.309**
Douglas	**2013**	**0.843**	**0.857**		**-0.014**	
Gilliam	2000	0.610	0.540	0.970	0.070	-0.342
Gilliam	2001	0.590	0.540	1.000	0.050	-0.355
Gilliam	2002	0.586	0.570	1.000	0.016	-0.314
Gilliam	2003	0.620	0.520	1.000	0.100	-0.295

Gilliam	2004	0.660	0.517	1.000	0.143	-0.270
Gilliam	2005	0.676	0.587	1.000	0.089	-0.280
Gilliam	2006	0.668	0.586	1.000	0.082	-1.000
Gilliam	2007	0.674	0.539	1.000	0.135	-1.000
Gilliam	2008	0.641	0.826	1.000	-0.185	-1.000
Gilliam	2009	0.629	0.832	1.000	-0.203	-1.000
Gilliam	2010	0.628	0.804	1.000	-0.176	-0.228
Gilliam	2011	0.645	0.783	1.000	-0.138	-0.276
Gilliam	2012	0.686	0.798	1.000	-0.112	-0.309
Gilliam	2013	0.705	0.848		-0.144	
Grant	**2000**	**0.730**	**0.720**	**0.970**	**0.010**	**-0.291**
Grant	**2001**	**0.720**	**0.720**	**1.000**	**0.000**	**-0.326**
Grant	**2002**	**0.000**	**0.000**	**0.000**	**0.000**	**0.706**
Grant	**2003**	**0.000**	**0.000**	**0.000**	**0.000**	**0.749**
Grant	**2004**	**0.000**	**0.000**	**0.000**	**0.000**	**0.680**

Grant	**2005**	**0.000**	**0.000**	**0.000**	**0.000**	**0.680**
Grant	**2006**	**0.772**	**0.926**	**1.000**	**-0.154**	**-0.320**
Grant	**2007**	**0.724**	**0.769**	**1.000**	**-0.045**	**-0.240**
Grant	**2008**	**0.691**	**0.747**	**1.000**	**-0.056**	**-0.220**
Grant	**2009**	**0.654**	**0.736**	**1.000**	**-0.082**	**-0.179**
Grant	**2010**	**0.679**	**0.753**	**1.000**	**-0.074**	**-0.208**
Grant	**2011**	**0.674**	**0.769**	**1.000**	**-0.095**	**-0.202**
Grant	**2012**	**0.706**	**0.822**	**1.000**	**-0.116**	**-0.262**
Grant	**2013**	**0.749**				
Harney	2000	0.680	0.820	0.000	-0.140	0.694
Harney	2001	0.680	0.770	0.850	-0.090	-0.111
Harney	2002	0.680	0.790	0.920	-0.110	-0.114
Harney	2003	0.760	0.870	0.000	-0.110	0.845
Harney	2004	0.780	0.950	0.000	-0.170	0.780
Harney	2005	0.821	0.975	0.000	-0.154	0.730

Harney	2006	0.792	0.946	0.000	-0.154	0.730
Harney	2007	0.798	0.930	0.000	-0.132	0.680
Harney	2008	0.738	0.813	0.000	-0.075	0.706
Harney	2009	0.686	0.790	1.000	-0.104	-0.319
Harney	2010	0.694	0.799	1.000	-0.105	-0.431
Harney	2011	0.739	0.826	1.000	-0.087	-0.454
Harney	2012	0.806	0.850	1.000	-0.044	-0.499
Harney	2013	0.845	1.000		-0.155	
Hood River	**2000**	**0.780**	**0.860**	**0.000**	**-0.080**	**0.525**
Hood River	**2001**	**0.730**	**0.830**	**0.880**	**-0.100**	**-0.300**
Hood River	**2002**	**0.730**	**0.810**	**0.950**	**-0.080**	**-0.337**
Hood River	**2003**	**0.680**	**0.820**	**0.940**	**-0.140**	
Hood River	**2004**	**0.706**	**0.744**	**0.000**	**-0.038**	**0.840**
Hood River	**2005**	**0.681**	**0.712**	**0.000**	**-0.031**	**0.840**
Hood River	**2006**	**0.569**	**0.743**	**0.000**	**-0.174**	**0.810**

Hood River	**2007**	**0.546**	**0.741**	**0.680**	**-0.195**	**-0.680**
Hood River	**2008**	**0.501**	**0.756**	**0.678**	**-0.254**	**0.048**
Hood River	**2009**	**0.495**	**0.775**	**0.711**	**-0.279**	**-0.055**
Hood River	**2010**	**0.525**	**0.780**	**0.724**	**-0.255**	**-0.150**
Hood River	**2011**	**0.581**	**0.698**	**0.750**	**-0.118**	**-0.263**
Hood River	**2012**	**0.613**	**0.701**	**0.735**	**-0.088**	**-0.253**
Hood River	**2013**					
Jackson	2000	0.840	0.740	1.000	0.100	-0.372
Jackson	2001	0.840	0.710	1.000	0.130	-0.242
Jackson	2002	0.810	0.710	1.000	0.100	-0.135
Jackson	2003	0.000	0.000	0.000	0.000	0.966
Jackson	2004	0.726	0.678	0.875	0.048	-0.165
Jackson	2005	0.656	0.599	0.987	0.057	-0.297
Jackson	2006	0.575	0.547	0.900	0.028	-0.230
Jackson	2007	0.487	0.521	0.939	-0.034	-0.289

Jackson	2008	0.482	0.456	0.763	0.026	-0.119
Jackson	2009	0.525	0.446	0.691	0.079	-0.060
Jackson	2010	0.628	0.449	0.761	0.179	-0.189
Jackson	2011	0.758	0.513	0.924	0.245	-0.442
Jackson	2012	0.865	0.604	0.928	0.261	-0.517
Jackson	2013	0.966	0.672		0.294	
Jefferson	**2000**	**0.710**	**0.760**	**0.000**	**-0.050**	**0.477**
Jefferson	**2001**	**0.690**	**0.700**	**0.000**	**-0.010**	**0.657**
Jefferson	**2002**	**0.670**	**0.690**	**0.000**	**-0.020**	**0.814**
Jefferson	**2003**	**0.650**	**0.690**	**0.000**	**-0.040**	**0.882**
Jefferson	**2004**	**0.644**	**0.691**	**0.000**	**-0.047**	**0.900**
Jefferson	**2005**	**0.631**	**0.683**	**0.000**	**-0.052**	**0.880**
Jefferson	**2006**	**0.572**	**0.591**	**0.000**	**-0.019**	**0.860**
Jefferson	**2007**	**0.483**	**0.480**	**0.958**	**0.003**	**-0.123**
Jefferson	**2008**	**0.411**	**0.391**	**1.000**	**0.020**	**-0.243**

Jefferson	**2009**	**0.412**	**0.378**	**1.000**	**0.035**	**-0.339**
Jefferson	**2010**	**0.477**	**0.389**	**1.000**	**0.088**	**-0.439**
Jefferson	**2011**	**0.657**	**0.509**	**1.000**	**0.149**	**-0.524**
Jefferson	**2012**	**0.814**	**0.522**	**1.000**	**0.292**	**-0.508**
Jefferson	**2013**	**0.882**	**0.607**		**0.275**	
Josephine	2000	0.900	0.930	1.000	-0.030	-0.332
Josephine	2001	0.880	0.950	0.990	-0.070	-0.238
Josephine	2002	0.860	0.930	1.000	-0.070	-0.068
Josephine	2003	0.835	0.930	1.000	-0.095	-0.045
Josephine	2004	0.757	0.905	1.000	-0.148	-0.200
Josephine	2005	0.661	0.836	0.995	-0.175	-0.195
Josephine	2006	0.561	0.814	0.888	-0.253	-0.086
Josephine	2007	0.476	0.758	0.917	-0.282	-0.118
Josephine	2008	0.492	0.654	0.812	-0.162	-0.028
Josephine	2009	0.554	0.658	0.747	-0.104	0.009

Josephine	2010	0.668	0.677	0.791	-0.009	-0.112
Josephine	2011	0.752	0.744	0.923	0.008	-0.405
Josephine	2012	0.932	0.778	0.889	0.154	-0.429
Josephine	2013	0.955	0.839		0.116	
Klamath	**2000**	**0.800**	**0.850**	**1.000**	**-0.050**	**-0.434**
Klamath	**2001**	**0.800**	**0.850**	**1.000**	**-0.050**	**-0.369**
Klamath	**2002**	**0.803**	**0.870**	**1.000**	**-0.067**	**-0.223**
Klamath	**2003**	**0.799**	**0.835**	**1.000**	**-0.036**	**-0.134**
Klamath	**2004**	**0.784**	**0.731**	**1.000**	**0.053**	**-0.250**
Klamath	**2005**	**0.756**	**0.749**	**1.000**	**0.006**	**-0.240**
Klamath	**2006**	**0.679**	**0.760**	**1.000**	**-0.080**	**-0.240**
Klamath	**2007**	**0.518**	**0.692**	**1.000**	**-0.174**	**-0.300**
Klamath	**2008**	**0.460**	**0.605**	**1.000**	**-0.146**	**-0.244**
Klamath	**2009**	**0.469**	**0.567**	**1.000**	**-0.098**	**-0.243**
Klamath	**2010**	**0.566**	**0.581**	**1.000**	**-0.015**	**-0.282**

Klamath	**2011**	**0.631**	**0.608**	**1.000**	**0.023**	**-0.318**
Klamath	**2012**	**0.777**	**0.641**	**1.000**	**0.136**	**-0.419**
Klamath	**2013**	**0.866**				
Lake	2000	0.750	0.760	0.000	-0.010	0.562
Lake	2001	0.760	0.800	1.000	-0.040	-0.413
Lake	2002	0.760	0.760	0.000	0.000	0.653
Lake	2003	0.700	0.700	0.000	0.000	0.660
Lake	2004	0.756	0.717	0.000	0.039	0.000
Lake	2005	0.757	0.718	0.000	0.039	0.789
Lake	2006	0.718	0.760	0.000	-0.042	0.822
Lake	2007	0.682	0.710	1.000	-0.028	-0.161
Lake	2008	0.581	0.692	1.000	-0.111	-0.183
Lake	2009	0.550	0.660	1.000	-0.110	-0.235
Lake	2010	0.562	0.707	1.000	-0.145	-0.300
Lake	2011	0.587	0.722	1.000	-0.135	-0.399

Lake	2012	0.653	0.753	1.000	-0.100	-0.438
Lake	2013	0.660	0.796		-0.136	
Lane	**2000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.653**
Lane	**2001**	**0.789**	**0.632**	**0.956**	**0.158**	**-0.215**
Lane	**2002**	**0.822**	**0.647**	**1.000**	**0.175**	**-0.207**
Lane	**2003**	**0.839**	**0.688**	**1.000**	**0.151**	**-0.134**
Lane	**2004**	**0.817**	**0.725**	**1.000**	**0.092**	**-0.140**
Lane	**2005**	**0.765**	**0.713**	**1.000**	**0.052**	**-0.130**
Lane	**2006**	**0.700**	**0.634**	**1.000**	**0.066**	**-0.108**
Lane	**2007**	**0.601**	**0.568**	**1.000**	**0.033**	**-0.088**
Lane	**2008**	**0.562**	**0.498**	**1.000**	**0.064**	**-0.095**
Lane	**2009**	**0.581**	**0.481**	**1.000**	**0.100**	**-0.132**
Lane	**2010**	**0.653**	**0.507**	**1.000**	**0.146**	**-0.217**
Lane	**2011**	**0.741**	**0.539**	**1.000**	**0.202**	**-0.410**
Lane	**2012**	**0.793**	**0.559**	**1.000**	**0.234**	**-0.483**

Lane	**2013**	**0.866**	**0.643**		**0.224**	
Lincoln	2000	0.860	0.700	0.950	0.160	-0.388
Lincoln	2001	0.870	0.700	1.000	0.170	-0.355
Lincoln	2002	0.892	0.729	1.000	0.163	-0.272
Lincoln	2003	0.912	0.755	1.000	0.157	-0.182
Lincoln	2004	0.905	0.780	1.000	0.125	-0.200
Lincoln	2005	0.868	0.791	1.000	0.077	-0.210
Lincoln	2006	0.783	0.782	1.000	0.001	-0.169
Lincoln	2007	0.590	0.652	1.000	-0.062	-0.154
Lincoln	2008	0.517	0.589	1.000	-0.072	-0.137
Lincoln	2009	0.509	0.559	1.000	-0.050	-0.168
Lincoln	2010	0.562	0.580	1.000	-0.018	-0.179
Lincoln	2011	0.645	0.659	1.000	-0.014	-0.247
Lincoln	2012	0.728	0.714	1.000	0.014	-0.326
Lincoln	2013	0.818	0.837		-0.019	

Linn	**2000**	**0.800**	**0.730**	**0.870**	**0.070**	**-0.105**
Linn	**2001**	**0.790**	**0.700**	**0.920**	**0.090**	**-0.074**
Linn	**2002**	**0.831**	**0.791**	**0.977**	**0.040**	**-0.044**
Linn	**2003**	**0.846**	**0.725**	**1.000**	**0.121**	**0.000**
Linn	**2004**	**0.863**	**0.789**	**1.000**	**0.074**	**-0.240**
Linn	**2005**	**0.832**	**0.751**	**1.000**	**0.081**	**-0.230**
Linn	**2006**	**0.821**	**0.787**	**1.000**	**0.034**	**-1.000**
Linn	**2007**	**0.753**	**0.677**	**1.000**	**0.076**	**-1.000**
Linn	**2008**	**0.674**	**0.652**	**1.000**	**0.022**	**-1.000**
Linn	**2009**	**0.695**	**0.637**	**1.000**	**0.058**	**-1.000**
Linn	**2010**	**0.765**	**0.682**	**1.000**	**0.083**	**-0.165**
Linn	**2011**	**0.846**	**0.714**	**1.000**	**0.132**	**-0.189**
Linn	**2012**	**0.933**	**0.710**	**1.000**	**0.223**	**-0.266**
Linn	**2013**	**1.000**	**0.845**		**0.155**	
Malheur	2000	0.760	0.720	0.860	0.040	-0.149

Malheur	2001	0.770	0.720	0.940	0.050	-0.186
Malheur	2002	0.000	0.000	0.000	0.000	0.000
Malheur	2003	0.000	0.000	0.000	0.000	1.000
Malheur	2004	0.000	0.000	0.000	0.000	0.820
Malheur	2005	0.000	0.000	0.000	0.000	0.809
Malheur	2006	0.835	0.828	1.000	0.007	-0.187
Malheur	2007	0.811	0.772	1.000	0.039	-0.189
Malheur	2008	0.734	0.799	1.000	-0.065	-0.188
Malheur	2009	0.692	0.703	1.000	-0.011	-0.203
Malheur	2010	0.711	0.724	1.000	-0.013	-0.226
Malheur	2011	0.754	0.811	1.000	-0.057	-0.293
Malheur	2012	0.000	0.000	0.000	0.000	0.627
Malheur	2013	1.000				
Marion	**2000**	**0.820**	**0.740**	**0.830**	**0.080**	**-0.137**
Marion	**2001**	**0.809**	**0.720**	**0.814**	**0.089**	**-0.049**

Marion	**2002**	**0.814**	**0.710**	**0.807**	**0.104**	**0.062**
Marion	**2003**	**0.811**	**0.702**	**0.798**	**0.109**	**0.174**
Marion	**2004**	**0.812**	**0.707**	**0.825**	**0.105**	**0.175**
Marion	**2005**	**0.797**	**0.672**	**0.830**	**0.125**	**-0.150**
Marion	**2006**	**0.774**	**0.673**	**0.785**	**0.101**	**-0.115**
Marion	**2007**	**0.707**	**0.664**	**0.775**	**0.043**	**-0.097**
Marion	**2008**	**0.627**	**0.626**	**0.923**	**0.001**	**-0.229**
Marion	**2009**	**0.623**	**0.622**	**0.721**	**0.001**	**-0.027**
Marion	**2010**	**0.693**	**0.621**	**0.767**	**0.072**	**-0.056**
Marion	**2011**	**0.765**	**0.636**	**0.840**	**0.129**	**-0.100**
Marion	**2012**	**0.869**	**0.666**	**0.914**	**0.203**	**-0.174**
Marion	**2013**	**0.972**	**0.598**		**0.374**	
Morrow	2000	1.000	1.000	1.000	0.000	-0.260
Morrow	2001	0.680	0.650	1.000	0.030	-0.257
Morrow	2002	0.670	0.580	1.000	0.090	-0.236

Morrow	2003	0.678	0.611	1.000	0.067	-0.214
Morrow	2004	0.694	0.672	1.000	0.022	-1.000
Morrow	2005	0.694	0.672	1.000	0.022	-1.000
Morrow	2006	0.711	0.694	1.000	0.018	-0.280
Morrow	2007	0.740	0.711	1.000	0.029	-0.296
Morrow	2008	0.740	0.730	1.000	0.010	-0.315
Morrow	2009	0.740	0.730	1.000	0.010	-0.336
Morrow	2010	0.740	0.730	1.000	0.010	-0.385
Morrow	2011	0.743	0.745	1.000	-0.002	-0.430
Morrow	2012	0.764	0.766	1.000	-0.002	-0.430
Morrow	2013	0.786	0.857		-0.072	
Multnomah	**2000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.552**
Multnomah	**2001**	**0.000**	**0.000**	**0.000**	**0.000**	**0.604**
Multnomah	**2002**	**0.721**	**0.548**	**1.000**	**0.173**	**-0.307**
Multnomah	**2003**	**0.704**	**0.560**	**1.000**	**0.144**	**-0.272**

Multnomah	**2004**	**0.686**	**0.561**	**1.000**	**0.125**	**-0.220**
Multnomah	**2005**	**0.664**	**0.575**	**1.000**	**0.089**	**-0.210**
Multnomah	**2006**	**0.615**	**0.535**	**1.000**	**0.080**	**-0.188**
Multnomah	**2007**	**0.570**	**0.509**	**1.000**	**0.061**	**-0.185**
Multnomah	**2008**	**0.570**	**0.509**	**1.000**	**0.061**	**-0.183**
Multnomah	**2009**	**0.505**	**0.435**	**0.765**	**0.070**	**0.038**
Multnomah	**2010**	**0.552**	**0.443**	**0.775**	**0.109**	**0.001**
Multnomah	**2011**	**0.604**	**0.443**	**0.875**	**0.162**	**-0.204**
Multnomah	**2012**	**0.693**	**0.488**	**0.838**	**0.205**	**-0.220**
Multnomah	**2013**	**0.728**	**0.541**		**0.187**	
Polk	2000	0.780	0.600	0.830	0.180	-0.132
Polk	2001	0.790	0.660	0.830	0.130	-0.071
Polk	2002	0.812	0.693	0.998	0.119	-0.163
Polk	2003	0.816	0.689	1.000	0.127	-0.073
Polk	2004	0.817	0.674	1.000	0.144	-1.000

Polk	2005	0.803	0.664	1.000	0.139	-0.240
Polk	2006	0.776	0.667	1.000	0.109	-0.241
Polk	2007	0.671	0.611	0.962	0.060	-0.189
Polk	2008	0.618	0.549	0.931	0.069	-0.145
Polk	2009	0.627	0.545	0.905	0.083	-0.026
Polk	2010	0.698	0.596	1.000	0.102	-0.128
Polk	2011	0.759	0.623	1.000	0.136	-0.285
Polk	2012	0.835	0.648	1.000	0.187	-0.383
Polk	2013	0.927	0.698		0.229	
Sherman	**2000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.540**
Sherman	**2001**	**0.760**	**0.770**	**0.840**	**-0.010**	**-0.282**
Sherman	**2002**	**0.759**	**0.796**	**0.901**	**-0.037**	**-0.351**
Sherman	**2003**	**0.773**	**0.803**	**0.886**	**-0.030**	
Sherman	**2004**	**0.786**	**0.707**	**0.992**	**0.079**	**-0.242**
Sherman	**2005**	**0.879**	**0.802**	**1.000**	**0.077**	**-0.220**

Sherman	**2006**	**0.872**	**0.802**	**1.000**	**0.070**	**-0.210**
Sherman	**2007**	**0.715**	**1.000**	**1.000**	**-0.285**	**-0.194**
Sherman	**2008**	**0.617**	**1.000**	**1.000**	**-0.383**	**-0.186**
Sherman	**2009**	**0.532**	**0.867**	**1.000**	**-0.335**	**-0.217**
Sherman	**2010**	**0.540**	**0.750**	**1.000**	**-0.210**	**-0.281**
Sherman	**2011**	**0.558**	**1.000**	**1.000**	**-0.442**	**-0.431**
Sherman	**2012**	**0.550**	**1.000**	**1.000**	**-0.450**	**-0.523**
Sherman	**2013**					
Tillamook	2000	0.750	0.720	1.000	0.030	-0.454
Tillamook	2001	0.780	0.750	0.870	0.030	-0.235
Tillamook	2002	0.790	0.770	1.000	0.020	-0.291
Tillamook	2003	0.806	0.778	1.000	0.028	-0.229
Tillamook	2004	0.814	0.810	1.000	0.004	-1.000
Tillamook	2005	0.783	0.793	1.000	-0.010	0.000
Tillamook	2006	0.719	0.752	1.000	-0.033	-0.246

Tillamook	2007	0.569	0.738	1.000	-0.169	-0.230
Tillamook	2008	0.477	0.640	1.000	-0.163	-1.000
Tillamook	2009	0.481	0.628	1.000	-0.147	-1.000
Tillamook	2010	0.546	0.651	1.000	-0.105	-0.195
Tillamook	2011	0.635	0.670	1.000	-0.035	-0.225
Tillamook	2012	0.709	0.698	1.000	0.011	-0.249
Tillamook	2013	0.771	0.780		-0.009	
Umatilla	**2000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.745**
Umatilla	**2001**	**1.000**	**1.000**	**1.000**	**0.000**	**-0.214**
Umatilla	**2002**	**0.754**	**0.665**	**1.000**	**0.089**	**-0.195**
Umatilla	**2003**	**0.770**	**0.682**	**1.000**	**0.088**	**-0.161**
Umatilla	**2004**	**0.000**	**0.000**	**0.000**	**0.000**	**0.790**
Umatilla	**2005**	**0.000**	**0.000**	**0.000**	**0.000**	**0.790**
Umatilla	**2006**	**0.805**	**0.700**	**1.000**	**0.105**	**-0.196**
Umatilla	**2007**	**0.775**	**0.682**	**1.000**	**0.093**	**-0.184**

Umatilla	**2008**	**0.751**	**0.677**	**1.000**	**0.073**	**-0.178**
Umatilla	**2009**	**0.740**	**0.673**	**1.000**	**0.067**	**-0.181**
Umatilla	**2010**	**0.745**	**0.669**	**1.000**	**0.076**	**-0.210**
Umatilla	**2011**	**0.786**	**0.688**	**1.000**	**0.098**	**-0.239**
Umatilla	**2012**	**0.805**	**0.722**	**1.000**	**0.084**	**-0.286**
Umatilla	**2013**	**0.839**	**0.745**		**0.094**	
Union	2000	0.790	0.700	0.990	0.090	-0.317
Union	2001	0.790	0.710	0.990	0.080	-0.293
Union	2002	0.804	0.721	1.000	0.083	-0.265
Union	2003	0.816	0.749	1.000	0.067	-0.229
Union	2004	0.822	0.748	1.000	0.074	-0.210
Union	2005	0.819	0.735	1.000	0.084	-0.198
Union	2006	0.790	0.745	1.000	0.045	-0.199
Union	2007	0.761	0.667	1.000	0.094	-0.158
Union	2008	0.714	0.688	1.000	0.026	-0.119

Union	2009	0.660	0.638	1.000	0.022	-0.118
Union	2010	0.673	0.695	1.000	-0.022	-0.118
Union	2011	0.697	0.697	1.000	0.000	-0.265
Union	2012	0.735	0.716	1.000	0.019	-0.304
Union	2013	0.771	0.735		0.036	
Wallowa	**2000**	**0.790**	**0.670**	**1.000**	**0.120**	**-0.379**
Wallowa	**2001**	**0.802**	**0.580**	**1.000**	**0.222**	**-1.000**
Wallowa	**2002**	**0.801**	**0.604**	**1.000**	**0.198**	**-0.344**
Wallowa	**2003**	**0.842**	**0.634**	**1.000**	**0.209**	
Wallowa	**2004**	**0.881**	**0.647**	**1.000**	**0.234**	**-1.000**
Wallowa	**2005**	**0.882**	**0.663**	**1.000**	**0.219**	**-0.240**
Wallowa	**2006**	**0.882**	**0.670**	**1.000**	**0.212**	**-0.250**
Wallowa	**2007**	**0.735**	**0.670**	**1.000**	**0.065**	**-0.190**
Wallowa	**2008**	**0.696**	**0.726**	**1.000**	**-0.030**	**-0.161**
Wallowa	**2009**	**0.621**	**0.575**	**1.000**	**0.046**	**-0.174**

Wallowa	**2010**	**0.621**	**0.575**	**1.000**	**0.046**	**-0.190**
Wallowa	**2011**	**0.000**	**0.000**	**0.000**	**0.000**	**0.603**
Wallowa	**2012**	**0.656**	**0.620**	**0.620**	**0.036**	**-0.089**
Wallowa	**2013**					
Wasco	2000	0.000	0.000	0.000	0.000	0.550
Wasco	2001	0.760	0.840	0.930	-0.080	-0.256
Wasco	2002	0.750	0.860	1.000	-0.110	-0.325
Wasco	2003	0.810	0.860	1.000	-0.050	-0.257
Wasco	2004	0.839	0.823	0.977	0.016	-0.217
Wasco	2005	0.826	0.788	1.000	0.038	-0.230
Wasco	2006	0.810	0.748	1.000	0.062	-0.233
Wasco	2007	0.603	0.716	1.000	-0.113	-0.233
Wasco	2008	0.531	0.574	0.922	-0.043	-0.173
Wasco	2009	0.535	0.544	0.902	-0.009	-0.165
Wasco	2010	0.550	0.545	0.732	0.005	-0.035

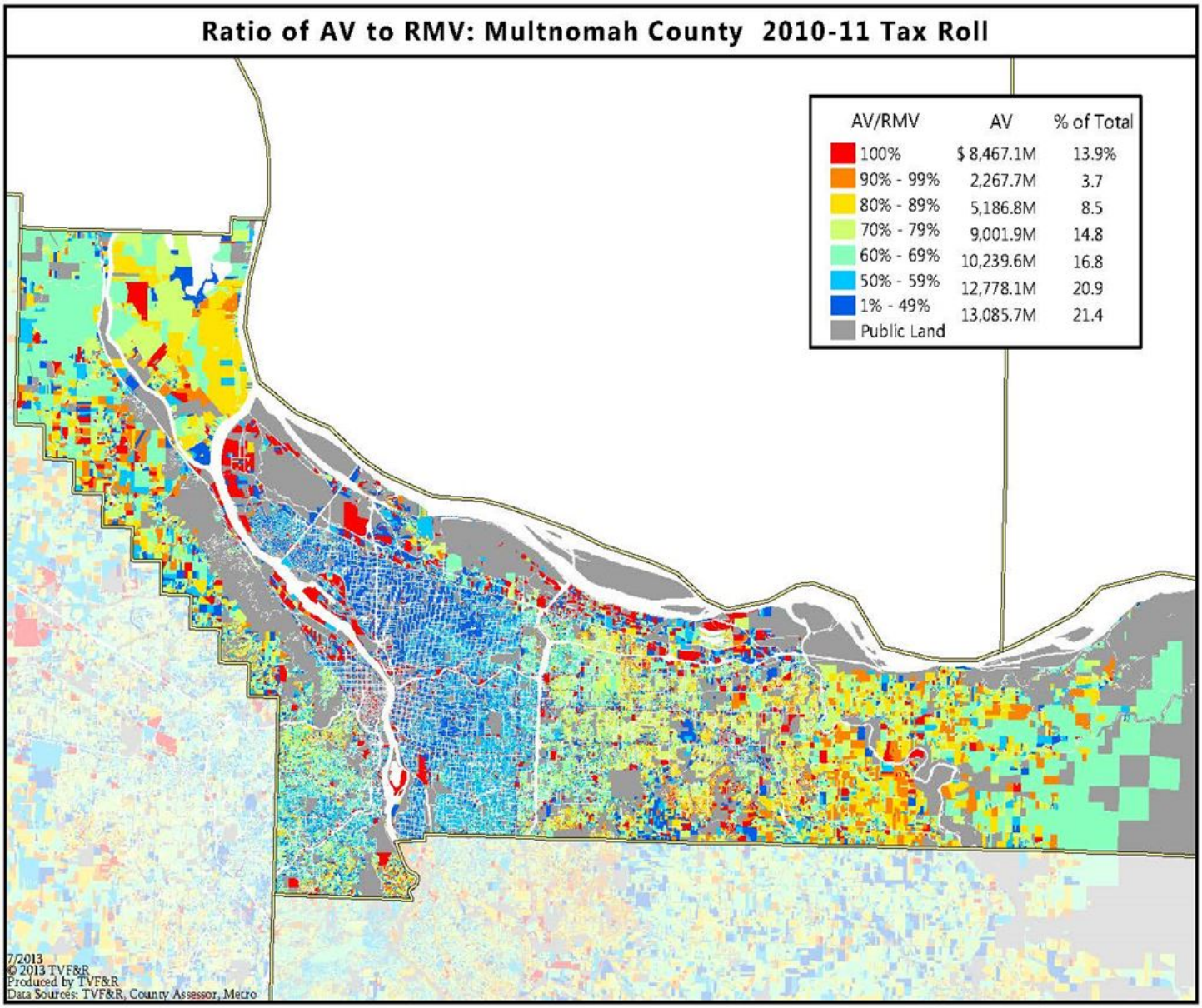
Wasco	2011	0.674	0.677	1.000	-0.003	-0.428
Wasco	2012	0.675	0.681	1.000	-0.006	-0.457
Wasco	2013	0.743	0.759		-0.016	
Washington	**2000**	**0.760**	**0.700**	**1.000**	**0.060**	**-0.342**
Washington	**2001**	**0.770**	**0.650**	**1.000**	**0.120**	**-0.280**
Washington	**2002**	**0.767**	**0.637**	**1.000**	**0.130**	**-0.213**
Washington	**2003**	**0.767**	**0.650**	**1.000**	**0.117**	**-0.149**
Washington	**2004**	**0.749**	**0.640**	**1.000**	**0.109**	**-0.370**
Washington	**2005**	**0.737**	**0.666**	**1.000**	**0.071**	**-0.380**
Washington	**2006**	**0.697**	**0.651**	**1.000**	**0.046**	**-0.390**
Washington	**2007**	**0.572**	**0.606**	**1.000**	**-0.034**	**-0.350**
Washington	**2008**	**0.543**	**0.575**	**1.000**	**-0.032**	**-0.321**
Washington	**2009**	**0.577**	**0.529**	**1.000**	**0.048**	**-0.335**
Washington	**2010**	**0.658**	**0.547**	**1.000**	**0.111**	**-0.325**
Washington	**2011**	**0.720**	**0.607**	**1.000**	**0.113**	**-0.340**

Washington	**2012**	**0.787**	**0.655**	**1.000**	**0.132**	**-0.340**
Washington	**2013**	**0.851**	**0.718**		**0.133**	
Wheeler	2000	0.630	0.640	0.000	-0.010	0.629
Wheeler	2001	0.620	0.650	0.000	-0.030	0.647
Wheeler	2002	0.610	0.660	0.000	-0.050	0.660
Wheeler	2003	0.650	0.710	0.000	-0.060	
Wheeler	2004	0.679	0.630	0.000	0.049	0.780
Wheeler	2005	0.665	0.622	0.000	0.043	0.770
Wheeler	2006	0.675	0.636	0.000	0.039	0.790
Wheeler	2007	0.660	0.652	0.000	0.008	0.790
Wheeler	2008	0.660	0.652	0.000	0.008	0.793
Wheeler	2009	0.601	0.610	0.000	-0.009	0.779
Wheeler	2010	0.629	0.611	0.000	0.018	0.745
Wheeler	2011	0.647	0.647	0.000	0.000	0.642
Wheeler	2012	0.660	0.677	0.000	-0.017	0.595

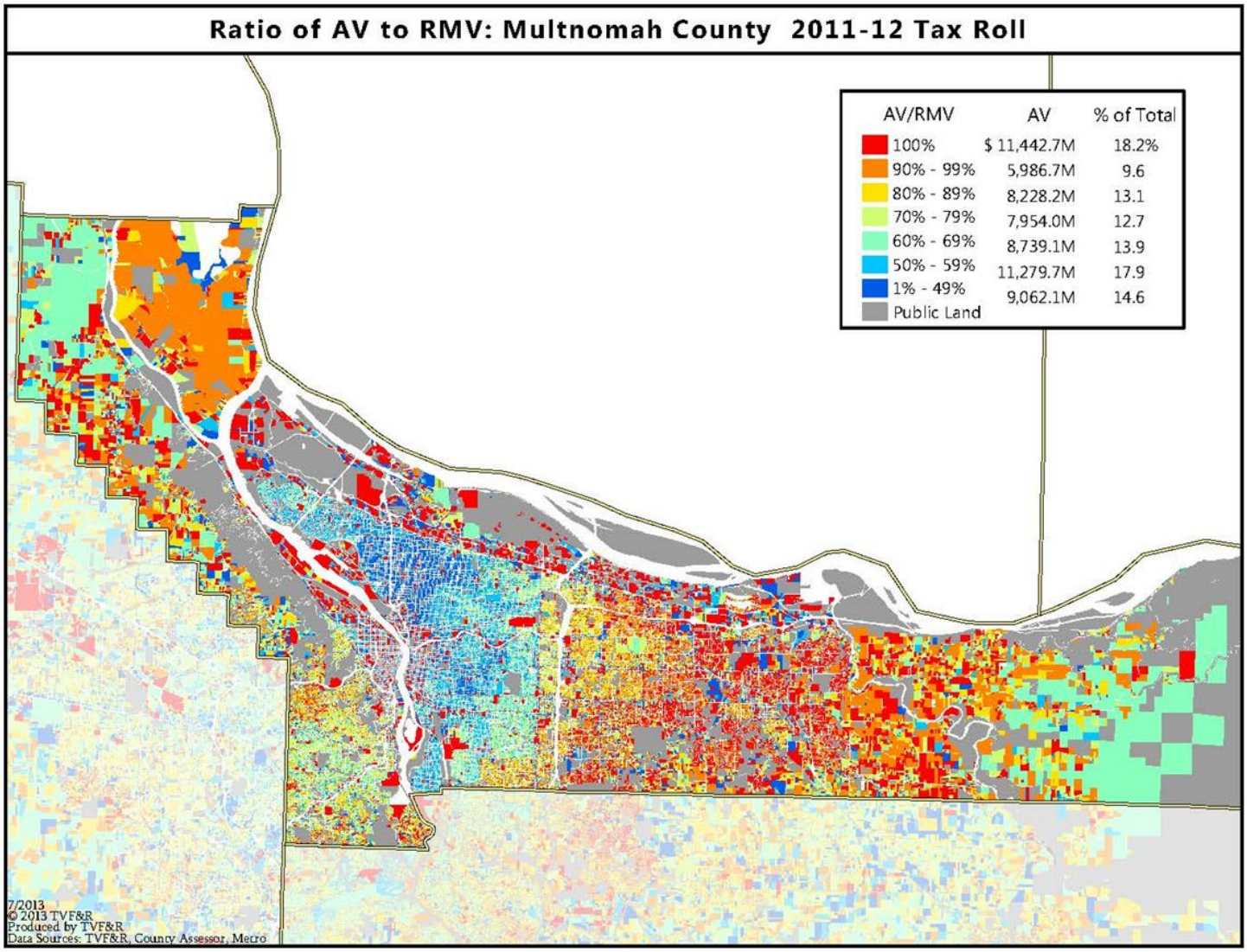
Wheeler	2013					
Yamhill	**2000**	**0.780**	**0.670**	**0.910**	**0.110**	**-0.262**
Yamhill	**2001**	**0.770**	**0.660**	**0.900**	**0.110**	**-0.188**
Yamhill	**2002**	**0.790**	**0.690**	**0.970**	**0.100**	**-0.142**
Yamhill	**2003**	**0.790**	**0.610**	**0.920**	**0.180**	**-0.025**
Yamhill	**2004**	**0.793**	**0.609**	**0.845**	**0.184**	**-0.845**
Yamhill	**2005**	**0.779**	**0.507**	**0.840**	**0.272**	**-0.840**
Yamhill	**2006**	**0.745**	**0.484**	**0.851**	**0.261**	**-0.851**
Yamhill	**2007**	**0.642**	**0.485**	**1.000**	**0.157**	**-1.000**
Yamhill	**2008**	**0.595**	**0.478**	**0.767**	**0.117**	**-0.767**
Yamhill	**2009**	**0.581**	**0.438**	**0.715**	**0.143**	**-0.715**
Yamhill	**2010**	**0.648**	**0.469**	**0.721**	**0.179**	**-0.721**
Yamhill	**2011**	**0.712**	**0.459**	**0.855**	**0.253**	**-0.855**
Yamhill	**2012**	**0.828**	**0.580**	**0.795**	**0.248**	**-0.795**
Yamhill	**2013**	**0.895**	**0.603**			

Appendix 4: Ratio of AV to RMV

Map 2

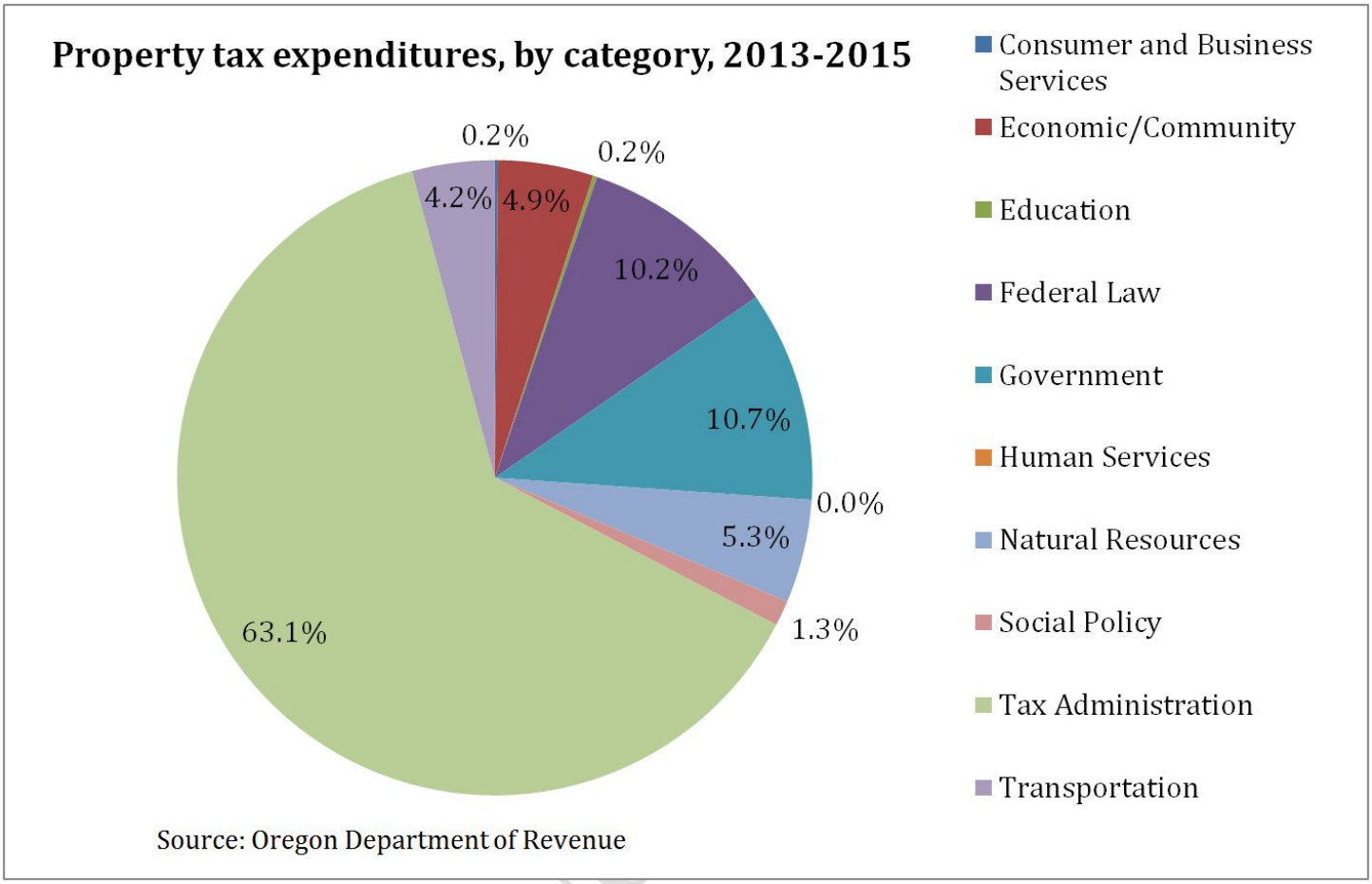


Map 3



Appendix 5: Oregon Tax Expenditures

Chart 4



Property tax expenditures are exemptions from the tax on individual properties. On a levy-based system, other property owners pay more. Oregon property tax expenditures fall into one of ten categories: Consumer and Business, Economic/Community, Education, Federal Law, Government, Human Services, Natural Resources, Social Policy, Tax Administration and Transportation. Tax Administration is consistently the largest category in terms of dollars spent. In 2013-2015, Tax Administration was estimated at $13,562,800,000; it accounts for more than 63% of property tax expenditures. Within the category of Tax Administration, Intangible Personal Property accounts for 91%. Intangible personal property includes: Financial property such as interest bearing accounts, stocks, and bonds; Business records in various media forms and Business intangibles like goodwill, patents, trademarks, trade secrets, customer lists, and copyrights.

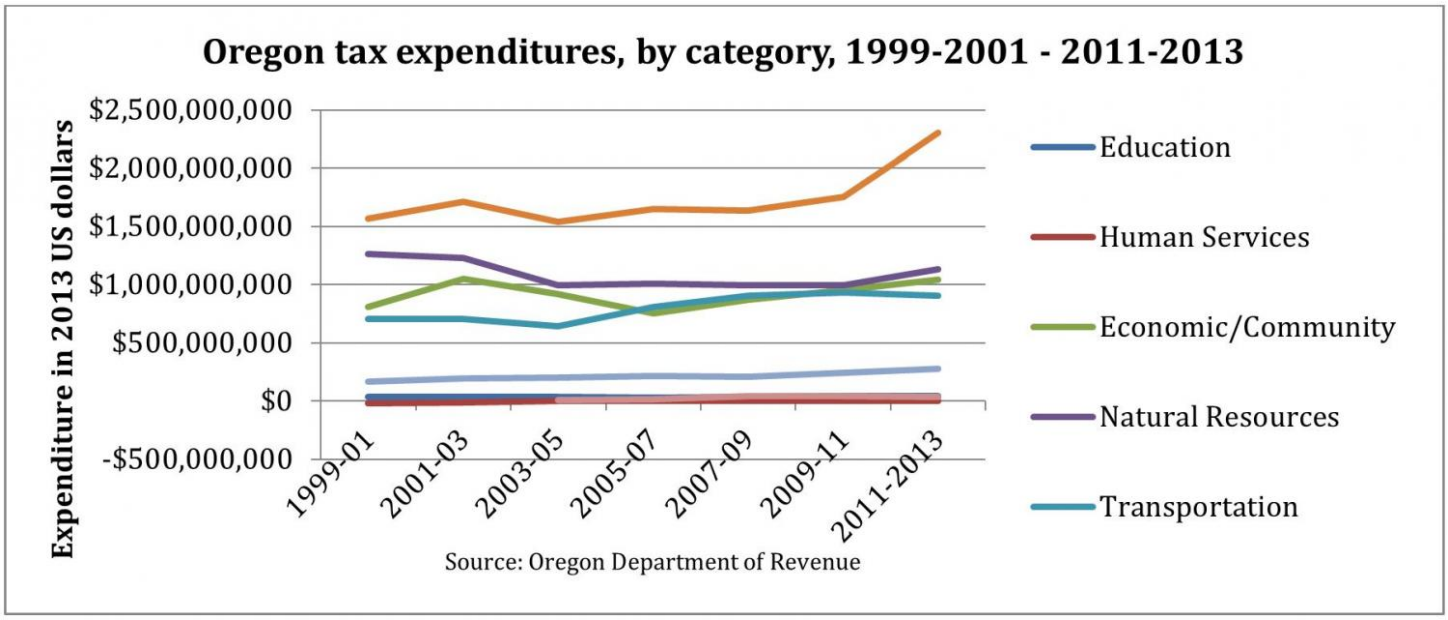
According to Chart 5, Between 1999-2001 and 2011-2013, the expenditures for most property tax expenditure categories remained fairly constant. Expenditures for Government, however, increased more than 50% from 2003-2005 to 2011-2013. The increase in Government property tax expenditures is mainly due to a 118% increase in expenditures for State and Local Property between 2003-2005 and 2011-2013 (when adjusted for inflation).

State and local government property is exempt from property taxation. State or local government property held under contract of sale or lease by a private party is taxable. For example, office buildings owned by the State of Oregon and used for public purposes are exempt, but space in those same buildings, if leased to a private company, is taxable.

Common School Fund land is exempt even if leased for private use. Article 8, Section 2 of the Oregon Constitution requires that all proceeds from certain lands granted to the state be dedicated to the Common School Fund. According to the attorney general, this means such lands are not taxable. The land involved includes some

state forestland, farm and leased in Eastern Oregon, and submerged or submersible lands on the coast.

Chart 5



Appendix 6: Criteria for Evaluating the Property Tax System

The criteria can be interrelated, reinforcing or contradictory. Virtually all arguments in support of or in opposition to any proposal apply one or more of these criteria.

Accountability

Accountability refers to the ability of taxpayers to identify and hold responsible the decision-makers who manage a jurisdiction's taxes and expenditures. Accountability for general government operating expenses tends to be high, as, for example, it would be for a local public library district. Because both State income tax and local property tax revenues fund public schools, accountability for education is less clear.

Adaptability

Adaptability refers to the ability of the system to compensate for changes in the environment, such as a jurisdiction's loss of federal timber payments, addition of revenues from new sources such as a sales tax, significant increases or decreases in population, or citizen changes in expectations about the levels of government services.

Clarity/Understandability

Clarity refers to ease of understanding the tax system: how it works, how decisions are made, how to appeal, and how the money is collected. The traditional levy-based system, where a city council establishes the funds they require to support the services citizens request, citizens approve it, and tax bills are assigned based uniformly and universally on market values of property, would be relatively simple. Voters can understand the tax system: how

the tax was arrived at, how to appeal assessments, what the tax obligations are, and whom to pay. A system with constitutional limits on rates, on assessments, and on levies, offering exemptions or credits on different classifications of property or owners, involving decision-makers at the local, county and state levels, with taxes of different duration and requiring adjustments of the tax obligations on individual properties, would be opaque and make accountability problematic.

Conflict among taxing jurisdictions

Conflict among taxing jurisdictions refers to the independence of the taxing authorities. With complete independence, taxes associated with supporting government services in overlapping jurisdictions would be purely additive. Municipality X within County Y and School District Z, which overlap, would each have taxes and a citizen residing within all three would pay the sum of the three.

With interdependence, actions by one jurisdiction impact the ability of overlapping jurisdictions to generate revenues, creating conflict among them. For example, consider a municipality that creates an urban renewal district for period of time. During that period, revenues generated from increases in property values resulting from infrastructure investments in the urban renewal area underwrite the cost of repaying bonds issued to pay for the investments. The action by the municipality removes the stream of revenues from increasing property values that would otherwise go to overlapping jurisdictions, whose taxpayers must now pay higher taxes to maintain the level of services.

Connectivity of tax burden with expenditures and benefits

Connectivity refers to the extent to which taxpayers associate the taxes they pay with the benefits they receive. A property tax levied to support library services or schools would have higher connectivity. A property tax levied to support general government operations, including roads, sewers, water, public safety, fire protection, parks and recreation, and social services would have lower connectivity.

Efficiency/Administrative ease

Efficiency refers to the cost of administering the tax system. That includes cost to the tax administrators and cost to the taxpayers. Tax assessors incur greater costs in responding to taxpayer complaints when, for example, property values increase based on market conditions, driving up taxes based upon real market value; or, tax assessors reassess property every five to six years, generating spikes in individual property tax bills. Taxpayers can incur more time and effort complying with some tax systems than others. Tax systems that require multiple ballots for voter approvals would have higher administrative costs. We can ask whether the cost of administering tax laws and redistributing tax revenues reduce a tax's intended impact.

Equity/Fairness

Equity refers to who contributes how much of the tax burden from the cost of producing government services. Equity stakeholders include homeowners, renters, tax-exempt properties, and commercial property owners with and without industrial equipment. Whether an individual believes a tax system to be equitable depends upon how much of the burden that individual bears relative to others. The judgment is personal. In that sense, all property taxes are inequitable; the decision is: which definition of equity do you want to embrace as a matter of public policy. With respect to the property tax system, four principles can apply.

> Ability to pay: Distribute the cost of government proportionate to a citizen's ability to pay. This principle relates tax burden to measures such as a citizen's overall wealth, income, or consumption. As a citizen's

wealth increases, the citizen has greater ability to pay, either in terms of total dollars or a higher rate of taxation. A citizen whose property has higher value presumably has greater ability to pay. This assumes that a citizen has sufficient earning to pay taxes annually toward the cost of government. Those who cannot are "land rich and cash poor." However, property taxation as practiced today is not the same as wealth taxation because property taxes falls primarily on realty (land and buildings) rather the personalty (movable property such as furnishings, jewelry, and financial investments).

Benefit: Distribute the cost of government to the value the citizen places on government services. As the value of a citizen's property increases, presumably the value of police and fire protection services increases. Again, this assumes that a citizen has sufficient earnings to pay taxes annually. Benefit, however, is not always proportionate to the value of property; it might be more so for fire protection services than for K-12 education, especially for nonresidential property.

Horizontal equity: The tax burden should be the same for everyone with equal ability to pay or receiving equal benefit from government services. They should pay the same amount of tax, the same tax rate, or both. This can evidence itself in the requirement in many state constitutions, including Oregon's, for uniformity: all comparable properties should be taxed at the same rate, absent exemptions to the contrary.

Vertical equity: The tax burden should increase with an individual's ability to pay or benefit from government services. A wealthier citizen pays more, either in total dollars, a higher rate, or both. Wealth means assets, such as property: land, buildings, machinery, etc. This assumes an individual has sufficient earnings to pay taxes annually.

Neutrality

Neutrality refers to the impact of a tax on decisions by private actors to allocate their budgets across their economic activities. If the tax on commercial property treats inventory as property, commercial enterprises may try to minimize the level of their inventories at the time when inventories are measured for tax purposes; if inventories are not treated as taxable property, then the tax is neutral with respect to inventory levels. If tax on single-family is lower than taxes on multi-family apartments, people will tend to prefer single-family homes.

Political Feasibility

Political feasibility refers to the extent to which the tax system or a proposal for changing it has the support of the electorate. In Oregon, that depends upon whether enactment is statutory or constitutional, and whether legislators will refer the proposal to a vote of the citizens or citizens will petition to place the proposal on the ballot. We can ask whether stakeholders are willing to change the status quo: do they know about the issues associated with Oregon's property tax and proposed changes, do they care, and are they willing to vote or otherwise take political action?

Predictability/Certainty

Predictability refers to the accuracy with the amount of tax can be known in advance. Taxpayers want to know in advance the amount of tax for which they will be liable so they can budget for it. Government officials want to know in advance the amount of taxes to be collected so they can plan and budget.

Sensitivity to public policy objectives

Sensitivity to public policy objectives refers to the extent to which the tax system can be employed to, for

example, encourage economic development or mitigate financial hardship.

Stability

Stability refers to the volatility of the revenues associated with the tax. A relatively stable tax buffers the stream of revenues from fluctuations in the base upon which the tax is levied. If property values decline rapidly, with a stable property tax system the revenues/tax bills decline more slowly. If property values increase rapidly, the revenues/tax bills increase more slowly.

Sufficiency

Sufficiency refers to the ability of the tax to generate revenues required to provide services expected by the taxpayers. The cost of providing government services changes with inflation, citizen expectations about levels of service, and population.

Transparency

Transparency refers to the extent to which participants and other stakeholders can observe the decision-making process: who makes which decisions when and how, that is, the criteria by which the decisions are made, leading in this case to the assignment of the tax to an individual property owner. Decisions made "behind closed doors," even if the process is simple, would be opaque. When appeals of property tax assessments and the resulting decisions are not public, that would be less transparent. A process that is transparent is likely to be free of deceit and corruption. Greater transparency improves accountability.

Appendix 7: Five Year Moving Average

Illustration of a five-year moving average applied to hypothetical median values of homes in Portland

Year	Median RMV (Home)	% Change RMV	5-Year Moving Average RMV	% Change Moving Average
2000	$148,000	-	-	-
2001	$150,000	+1.4	-	-
2002	$150,000	0	-	-
2003	$170,000	+13.3	-	-

2004	$185,000	+8.8	$160,000	-
2005	$205,000	+10.8	$172,000	+7.5
2006	$245,000	+19.5	$191,000	+11
2007	$260,000	+ 6.1	$213,000	+11.5
2008	$305,000	+17.3	$240,000	+12.7
2009	$265,000	-13.1	$256,000	+6.7
2010	$250,000	- 5.7	$265,000	+3.5
2011	$250,000	0	$266,000	+ .4
2012	$260,000	+ 4.0	$266,000	0
2013	$255,000	- 1.9	$256,000	-3.8
Range		**-13.1 to 19.5**		**-3.8 to 12.7**

About the City Club

The mission of City Club is to inform its members and the community in public matters and to arouse in them a realization of the obligations of citizenship.

Additional copies of this report are available online at www.pdxcityclub.org.

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