# **Property Taxes**

## The Story of M5 and M50



Carol Samuels Manager Director

#### What are the elements of a good property tax system?

- ✓ Stable
- ✓ Equitable
- ✓ Adequate
- ✓ Comprehensible
- ✓ Predictable

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### A Simpler Time? Pre-M5 and M50

- Property taxes were set on a "levy-based" system
- A jurisdiction's levy was submitted to the County as a dollar amount
  - Rates were calculated by dividing that amount by the <u>real</u> market value of the property
- Some jurisdictions had "tax bases"
  - Authorized levy amounts allowed to increase automatically by 6% annually. Voters could approve unlimited increases in tax bases
- Other jurisdictions survived on temporary "serial levies" or permanent "continuing levies" with no automatic inflators
- This led to wide disparities of tax rates between like jurisdictions and wide discrepancies in funding levels

#### **Property Taxes Increase**

Between 1981-1991, although property values rose slowly due to recessionary forces, 6% tax base increases caused much faster growth in property tax bills

The effective tax rate statewide rose

- **\$19.05/\$1,000 in 1980-81**
- **\$26.61/\$1,000 in 1990-91**





#### Measure 5 to the "Rescue"

M5 Retained Levy-Based System, but added Rate-Based Limits

- \$10/\$1,000 for general governments
- \$5/\$1,000 for education

#### Education rates were phased in over a 5 year period

- Began at \$15/\$1,000
- Declined by \$2.50/\$1,000 each year until it reached \$5/\$1,000



Fun Fact: M5 was approved with a 52% yes vote; including a <u>majority</u> yes vote in Multnomah, Washington, & Clackamas Cos.

#### Measure 5 to the "Rescue" (cont'd)

- Property tax levies still divided by RMV; Resulting tax rates were then compared to M5 limits
- Tax bases could still increase by 6% annually
- If rates exceeded the limit, levies were "compressed" proportionally until within the limit
- For the first time, overlapping jurisdictions "competed" against each other for revenue under the limits



#### **Property Taxes Increased Again**

- By 1996, rapidly increasing residential real market values caused property tax rates to fall below Measure 5 limits
- Compression declined
- Taxes rose
- Enter Bill Sizemore and Measure 47...
- Although M47 was approved in November 1996, it was deemed unimplementable by the Legislature.



#### Measure 50 to the "Rescue"

- Approved by the voters on May 20, 1997
- Fundamental change from levy-based to rate-based system
- Introduced concept of <u>Assessed Value</u> (AV)
  - AV = 1995/96 RMV less 10%, strict limit on growth
  - Assessed Value growth was limited to 3% per year; it can never exceed RMV
- New "permanent" rates established by:
  - Calculating 1997 levies, reduced them by 17%, and then dividing by 90% of the 1995-96 RMV (the "Assessed Value")
- Created voter-approved, temporary, "Local Option" levies

#### **Measure 50 – Local Option Levies**

- Temporary property tax levies for additional capital (10 years) or operating (5 years) funds
- Can be levied as fixed dollar amount or rate per thousand of assessed value
- Require voter approval
- Levied in addition to permanent rates
- Compress to zero before permanent rate levies

#### All levies are still subject to Measure 5 Limits (\$5/\$10)

### **Change Property Ratios**

## New properties are brought on at county-wide ratio of AV to RMV (the "Change Property Ratio")

Figure 10 - Changed Property Ratio (CPR) Examples								
Step One: Calculate CPR								
Average AV Countywide (by property type) Divided by Average RMV of same properties		\$ \$	172,618 343,689					
Equals CPR	=		0.5023					
Step Two: Calculate New Property AV, Example 1								
RMV		\$	400,000					
Times CPR	х		0.5023					
Equals AV	=	\$	200,900					
Step Two: Calculate New Property AV, Example 2								
RMV		\$	200,000					
Times CPR	х		0.5023					
Equals AV	=	\$	100,450					

## **Pre-Measure 5 to Measure 50: The Math**

Pre Measure 5				
lurisdiction		Tay Base	PMV	Effective
Junsuiction		Tax Dase		Tax Rate
City	\$	1,500,000	\$200,000,000	\$7.50
County	\$	2,000,000	\$300,000,000	\$6.67
Total	\$	3,500,000		\$14.17

#### Measure 5

lurisdiction		Original Tay Base		RMV	Calculated	Comprossion	Effective Tax	Rate x
Junsaiction	Clion Original Tax base		Tax Rate		compression	Rate	RMV	
City		\$	1,500,000	\$200,000,000	\$7.50	(\$2.21)	\$5.29	\$1,058,574
County		\$	2,000,000	\$300,000,000	\$6.67	(\$1.96)	\$4.71	\$1,412,138
	Total	\$	3,500,000		\$14.17	(\$4.17)	\$10.00	\$2,470,713

#### Measure 50

Jurisdiction	Orig	inal Tax Base	AV	Pre-M 50 Effective Rate	New Perm Rate	Rate x AV
City	\$	1,500,000	\$180,000,000	\$5.29	\$4.88	\$ 878,617
County	\$	2,000,000	\$270,000,000	\$4.71	\$4.34	\$ 1,172,075
Tot	al \$	3,500,000		\$10.00	\$9.22	\$2,050,692

Night of the Living Nerds: Your Property Tax System Explained!

#### **Impacts Since Measure 50**

- Divergence of AV and RMV
  - Created Maximum Assessed Value
- Created inequities
  - Permanent rates
  - Property to property
  - Neighborhood to neighborhood
  - Business to business
- Compression

**Divergence of AV and RMV** 

**Overall, RMV growth has strongly outpaced AV since 1997.** 

AV and RMV of Property in Oregon Fiscal Year 1982 to 2023



Source: Oregon Department of Revenue, Oregon Property Tax Statistics.

#### **Maximum Assessed Value**

- AV cannot exceed RMV. If RMV dips below AV, previous AV is set as "Maximum AV" until RMV rebounds. AV may that year grow by > 3%.
- Reduces revenue during recessions; permanently reduces growth in AV.



#### **Created Inequities: Permanent Rates**

#### Cities 20,000 – 27,000 Population



#### **Select Counties**



## **Select School Districts**



**Created Inequities: Property by Property** 

AV values set based on 1997 RMV, locking then present real estate conditions into perpetuity.

**Example: North Portland vs. Multnomah** 

Sold in 2019 Sales price \$749K Assessed Value \$94K Tax \$2,378



Sold in 2020 Sales Price \$755K Assessed Value \$517K Tax \$9,377



#### Tale of Two Houses – Salem Not just a Multnomah County issue

Sold in February 2021 Sales price \$365K Assessed Value \$259K Tax \$5,095



Sold in November 2021 Sales price \$387K Assessed Value \$128K Tax \$2,521



#### Which Neighborhoods Benefit Measure 50 benefits are not shared equally across geographies



#### **Business to Business Inequity**

#### A Tale of Two Businesses:

#### Both gas stations have a real market value of approximately \$1.4 million.





## **Types of Compression**

#### **Rate Compression**

- Based on Measure 5 limits
- Affected by additional tax levies
  - Local Option Levies
  - New Special Districts



#### **Types of Compression**

**Value Compression** 

Occurs when gap between RMV and AV narrows and becomes less sufficient to cover rates above the limits

> AV and RMV of Property in Oregon Fiscal Year 1982 to 2023



#### **Compression Losses Since 1998**



## **Compression Example**



## **Property A**

Real Market Value = 200,000Assessed Value = 120,000Total Education rate = 6.1125/1,000Total General rate = 16.3259/1,000

#### Measure 5 limits (based on RMV)

- Education: \$ 5 x \$ 200 = \$ 1,000
- General: \$10 x \$200 = \$2,000

#### Total Tax Burden (based on AV)

- Education: \$6.1125 x \$ 120 = \$734
- General: \$ 16.3259 x \$ 120 = \$ 1,959

Compare Tax Burden to Measure 5 Limits

- Both tax burdens are below M5 limit
  - \$ 734 < \$ 1,000
  - \$ 1,959 < \$ 2,000
- No Compression



## Property B

Real Market Value = \$200,000 Assessed Value = \$170,000 Total Education rate = \$6.1125/\$1,000 Total General rate = \$16.3259 /\$1.000

#### Measure 5 limits (based on RMV)

- Education: \$ 5 x \$ 200 = \$ 1,000
- General: \$10 x \$200 = \$2,000

#### Total Tax Burden (based on AV)

- Education: \$6.1125 x \$ 170 = \$ 1,039
- General: \$16.3259 x \$170 = \$2,775

#### Compare Tax Burden to Measure 5 Limits

- Both tax burdens are above M5 limit
  - \$1,039 > \$1,000
  - \$ 2,775 > \$ 2,000
- Compression exists
  - \$ 39 for Education
  - \$ 775 for General Government

### **Measure 5 Limits Remove Voter Control**

Percentage of local option levy revenue lost to statewide limits, FY 2022-23					
Tax District	% Lost to Compression				
Hood River School District	18.8%				
Multnomah County	18.3%				
Morrow County Health	16.1%				
Woodburn Rural Fire Protection District	15.1%				
North Clackamas School District	14.8%				
Corvallis School District	14.1%				
Crow-Applegate-Lorane School District	12.6%				
Tigard-Tualatin School District	12.5%				
West Linn- Wilsonville School District	11.7%				
Sweet Home School District	10.6%				

#### How Could Property Tax Reform Work?

**Constitutional versus statutory fix** 

 Statutory options are limited, significant reform will require a constitutional change

**Comprehensive versus incremental reform** 

- No compression on local option levies
- Taxation at market value would be a bigger win

The path to the ballot

- Policy development and coalition building
- Referral by the legislature or signature gathering
- Ballot measure campaign
- The voters decide!



#### **Questions?**

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