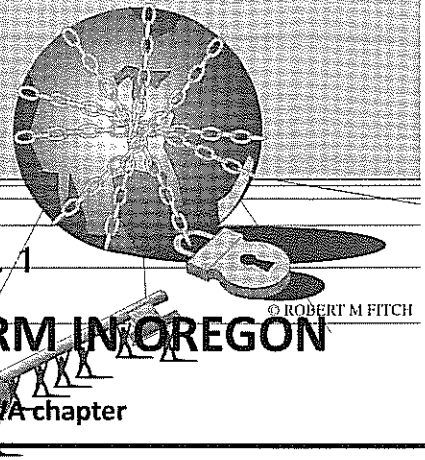


# GROUND SWELL

A BI-MONTHLY PUBLICATION OF  
COMMON GROUND-USA



JANUARY-FEBRUARY 2013 / \$3.00

VOLUME 26, No. 1

## GETTING REAL ON PROPERTY TAX REFORM IN OREGON

by Kris Nelson, Tom Girhing, and Jeff Strang of the OR-WA chapter

Oregon's flirtation with land value taxation dates to the early twentieth century when William S. U'ren advocated for a vote on the "single tax." Despite his efforts, though he developed the citizen initiative process to place LVT on the ballot, it never qualified for the ballot and no vote has been taken.

Over several biannual legislative sessions beginning in 2003, our little band of Georgists managed to get resolutions introduced to refer a constitutional amendment enabling local jurisdictions to adopt a split-rate tax. We've testified at several committee hearings over the years and given presentations on LVT to publicly appointed committees, lobbyists and legislative staff.

This session, the political environment seems to have changed somewhat. Recent frustration over property tax inequities and shortfalls in local voter-approved funding have fanned winds of reform. Some background: Measure 5, a citizen initiative passed in 1990 is considered the beginning of Oregon's property tax revolt. It places an annual growth limit on property tax rates between 5 and 10 percent. A rise in real estate valuations, caused by an economic boom and the continued influx of new homeowners in the Portland area, caused a rapid rise in taxes. M-5 was followed by Measure 50 in 1997, placing a three percent maximum annual limit on the growth of property assessments. This was done, despite cautions by economists and public finance experts, in order to prevent local governments from raising assessed values to make up the difference in reduced tax rates.

These statewide tax rate limitations and use of taxable assessments dictated by Measures 5 and 50 have resulted in serious revenue shortfalls, economic distortions, and disparities in tax bills among property owners. Local entities such as school districts, despite voter approvals, cannot adequately fund essential services thanks to Measure 5's local tax caps, causing "compression."

Tom Girhing and Kris Nelson's 1999 study of the cumulative effects of Measure 50 limits on assessed values in Salem revealed a troubling pattern: tax burdens are shifted off of rapidly-appreciating properties (usually occupied by higher income households), resulting in a tax shift onto properties with slower-growing or decreasing assessed values. Statewide the effect has been to shift tax burden off of commercial properties onto residential properties. The most objectionable feature of the M-50 false assessments for most homeowners is a disconnect between their tax bill and either their ability to pay the tax or the actual appreciation in property values they experience. According to organizations like the Institute on Taxation and Economic Policy, assessment caps are among the least fair and least effective tax strategies available.

What are the best solutions to this broken tax structure?

The Oregonian newspaper (December 20, 2012) proposed in an editorial to reset assessed values upon sale to an overall average price. This opinion piece recognizes the problem, but it prolongs the fabrication of false assessments under M-50 and fails to address ongoing discrepancies in neighborhood market values. "Reset on sale" to real market values (RMV) could take up to 30 years to turn over all the housing stock in a metropolitan market. Then, if the assessment growth limit isn't permanently replaced through a constitutional amendment, the same inequities 'reset' and continue to build.

The League of Oregon Cities, with whom we at Common Ground OR-WA are coordinating efforts, is promoting a constitutional amendment to exempt jurisdictions adopting a local option levy from M-5 and M-50 limits (with a reset on sale). Our amendment takes this a step further. We believe the property tax system's brokenness is so severe it warrants a permanent solution -- a permanent, one-time return to RMV and the introduction of a split-rate tax regime. HJR22 refers a constitutional amendment offering an option for cities and counties to adopt a land value tax in lieu of the uniform ad valorem property tax, thus exempting local jurisdictions from M-5 and M-50 limitations. We have suggested to legislators that this could be accompanied by tax relief measures such as a phase-in period and a means-tested tax deferral. Replacing the tax rate growth limits (M-5) with a revenue limit, similar to what Washington does, would enable the use of RMV with a check on tax increases.

Given the turnover in legislative seats with a Democratic majority, we decided that a more prudent first step would be for the Legislature to approve a study of the economic incentive and equity effects of a local option land value tax coupled with a change from M-50 limited assessments to true market assessments. Kris Nelson's representative, Alissa Keny-Guyer (D-46<sup>th</sup> Dist.), a bright new legislator who desires to find a solution to the inadequate funding of schools, agreed to introduce our study bill. HB2509 is now a Revenue Committee bill: it will likely receive a hearing soon.

In discussing it with both R and D representatives, we have found no apparent opposition. Because of the public funding crisis there has been some talk about introducing a sales tax in Oregon. However, it has consistently polled very low, and because of this our representatives seem ready to hear how LVT could work -- among other things, to expand the tax base. HJR23 specifies the provisions of a local-option land value tax using true market assessments and shifting the bulk of the tax base off of building values onto land values. (This was intended as a statute [having an HB prefix] but was mistakenly introduced as a resolution [HJR] (cont'd on p. 12)