

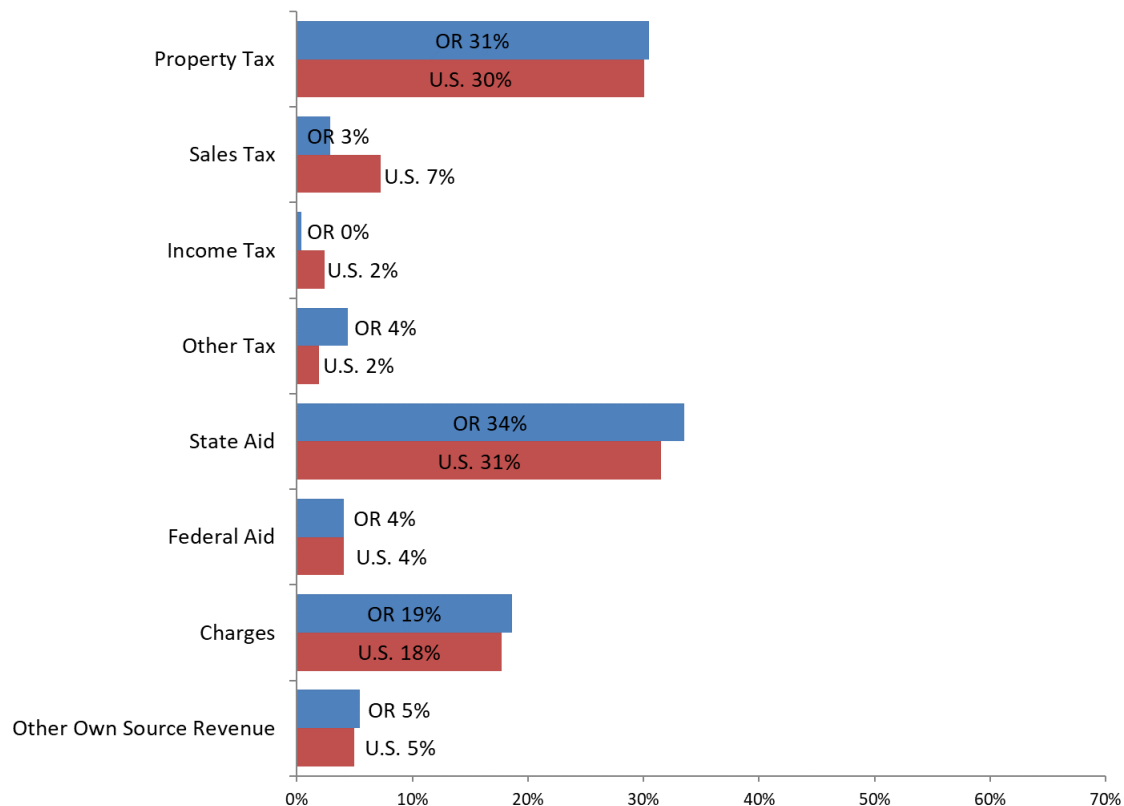
Oregon

Highlights

Oregon’s property tax system has been transformed by use of the ballot initiative during the 1990s. Combined, Ballot Measures 5, 47, and 50 have imposed limits on property taxes and the speed by which assessed values can adjust between years. One effect of these measures has been to make Oregon’s property tax system one of the most complex in the United States. Although a number of other states use assessment limits, Oregon is “the only state where assessed values do not reset to market value each time a property is sold” (Shafroth 2016).

Oregon is one of five states (along with Alaska, Delaware, Montana, and New Hampshire) that do not impose a general sales tax. As a result, the state is highly reliant on the personal income tax. At the local level, sales taxation is limited primarily to the taxation of public utilities, and there is no personal income tax. Hence, local governments are highly reliant on state aid and local property taxes, which combined provide 65 percent of local general revenue (figure OR-1).

Figure OR-1
Sources of Local General Revenue, Oregon and U.S., 2017



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

For 2017, state and local property taxes were 3.1 percent of personal income, the same as the U.S. average. State and local per capita property taxes of \$1,488 were slightly below the national average (table OR-1).

Table OR-1
Selected Oregon Property Tax Statistics, 2017¹

	Oregon	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$1,488	\$1,618	28
Property tax percentage of personal income	3.1%	3.1%	21
Total property tax as percentage of state-local revenue	14.1%	16.2%	32
Median owner-occupied home value ²	\$287,300	\$222,041	10
Median real estate taxes paid for owner-occupied home ²	\$2,890	\$2,412	16
Effective tax rate, median owner-occupied home ³	1.0%	1.1%	23

Sources: [U.S. Census via Significant Features of the Property Tax](#), American Community Survey

¹ All revenue numbers in this table include the state government as well as local governments.

² The statistics for [median owner-occupied home value](#) and [median real estate taxes paid for owner-occupied home](#) are five-year average statistics for years 2014-2018.

³ Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

Assessments are carried out at the county level and are limited by Ballot Measure 50, as described under Limits on Property Taxation below (table OR-2). Revaluation is done annually, and there is no classification of property. Personal property used in a business is taxed, but business inventories are exempt from property taxation.

Limits on Property Taxation

Property taxes are limited by Measure 5 to \$5 per \$1,000 of real market value for school taxes and \$10 per \$1,000 of real market value for general government operations. Real market value is Oregon's term for market value. Special-issue bonds put to a vote are exempt from these limitations.

Measure 50 is Oregon's assessment limit. Due to Measure 50, there is now a distinction between taxable assessed value (the value upon which the property tax is levied), maximum assessed value, and real market value. Taxable assessed value is the lower of real market value and maximum assessed value. Growth in maximum assessed value is limited to 3 percent per year, unless there are changes to the property, such as new construction.

When Measure 50 was enacted in 1997, the assessed value of each property was rolled back to 90 percent of its assessed value as of 1995 through 1996. The original assessed value for new construction is calculated as the real market value multiplied by the ratio of assessed value to real market value of similar property at the time of completion. Significant structural changes (such as additions) are added to assessed value in a similar manner. Importantly, property is not reassessed when it changes ownership.

One of the most important results of Oregon's transformed property tax system is that similar properties located next to each other can be subject to very different property tax bills.

Because taxable assessed value is the lower of two items that can grow or decline at different rates, some unexpected property tax changes can result. As one example, consider a property owner in a declining market whose real market value is plummeting and for whom maximum assessed value is lower than real market value. The property tax in this case will be based on maximum assessed value. Since maximum assessed value rises 3 percent per year, property tax due can increase even when the property value is falling.

Alternatively, consider a property for which real market value is less than maximum assessed value. Property tax will then be based on real market value. If real market value increases by 10 percent (and remains below maximum assessed value), property taxes can increase by 10 percent. This can seem counterintuitive when growth in maximum assessed value cannot exceed 3 percent.

Finally, if localities approve tax rates for a given property that are over the limit set by Measure 5, the property is said to be in compression. State statutes specify how taxes must be reduced in order to meet the limit. Local-option taxes (temporary taxes above the permanent rate limits) are reduced first, then other taxes are reduced proportionately. If additional property taxes are passed by voters, the tax on compressed properties cannot increase. Thus, voters subject to compression can vote to raise taxes on their neighbors, but not on themselves.

Property Tax Relief and Incentives

A residential property tax deferral program allows income-qualified disabled or elderly residents to defer tax payments until death, transfer of the property, or end of disability. Property tax exemptions on homesteads are available to active military, veterans, and surviving spouses of veterans.

Oregon provides property tax incentives for economic development, including an enterprise zone program that exempts up to the full value of qualifying construction-in-process property for up to 10 years, and tax increment financing (TIF) for urban renewal areas.

Several types of property are eligible for preferential treatment under current use: conservation/open space, forest land/timber production, farmland, and wetlands.

Table OR-2
Property Tax Features of State Governments, United States, 2018

Feature	Oregon	Count for 50 states plus DC
Statewide classification of real property	No	25
Assessment of property primarily by county	Yes	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	Yes	19
Circuit breaker property tax relief program	No	34

Sources: Significant Features of the Property Tax

Key Property Tax History

Prior to 1991 through 1992, each taxing district calculated its own tax levies, which were constitutionally limited to an annual growth of 6 percent. Levies increasing by more than that amount had to be placed before voters.

Local government in Oregon provided 78 percent of school funding in the early 1970s. A majority of this funding was from property taxes. This contributed to how much per-pupil spending varied among districts. While some districts spent \$1,795 per pupil, others were spending as little as \$674 per pupil (SchoolFunding.Info). These funding disparities led to an equity case, *Olsen v. State*, in 1976. The Oregon Supreme Court found that the school finance system was not violating either the equal protection or education clauses of the state's constitution because it simply states a minimal standard. They did, however, acknowledge the link between district wealth and educational opportunity for students.

It wasn't until 1991 that plaintiffs again challenged the equity of the state education finance system in *Coalition for Equitable School Funding v. State* (SchoolFunding.Info). The court ruled in the state's favor, denying the plaintiffs relief. Despite this outcome, voters were able to use the referendum process to pass Measure 5 the same year. Property taxes for school districts were capped at \$15 per \$1,000 of real market value and were lowered by \$2.50 each year thereafter until reaching \$5 per \$1,000, the statutory limit. Taxes for other purposes were capped at \$10 per \$1000 per year, so that at the end of the five-year phase-in period, the maximum property tax rate was 1.5 percent. Under the new funding system, the state provides about 75 percent of school funding.

Citizens' initiative Measure 47 was passed by voters in 1996, reducing property taxes to 90 percent of either the 1994 through 1995 level or the 1995 through 1996 level (whichever was lower) for every property in the state. It also limited increases in assessed property values to 3 percent in subsequent years.

In 1997, the Oregon legislature sent Measure 50 to voters in order to clarify language from Measure 47. The most important change was that Measure 50 rolled back the *assessed value* of each property to 90 percent of its assessed value as of 1995 through 1996 instead of rolling back *property taxes* to 90 percent of their 1995 through 1996 level. The voters passed Measure 50 in November of that year.

Two cases challenged the constitutionality of the Measure 5 funding reforms between 1994 and 2000 (SchoolFunding.Info). In the first case, the plaintiffs claimed that the transition mechanism in the new school funding formula furthered inequality by limiting the amount that funding could increase or decrease in each district. In the second, they claimed that a student's class, based on geographical location, determined the level of funding that they received. The Oregon Court of Appeals did not find a constitutional violation and the Supreme Court denied a petition for review after determining that there is no need to resolve the question of whether funding is distinguished on a geographical basis.

Most recently, in 2006, six school districts and three parents filed a school funding case based on the state constitution's requirements to provide a uniform and general school system and to sufficiently fund those schools (SchoolFunding.Info). Plaintiffs in *Pendleton School District v. State* asked the court to declare the school finance system unconstitutional and for the state to create and fund a better system. They cited the Quality Education Model in their complaint, arguing that the state fell short of reaching required funding levels. In 2009, the state's supreme court ruled that the legislature failed to fund public schools at the constitutionally-required level, but did not mandate full funding because language in the constitution states that if the legislature does not meet the funding requirement, they must provide a report that publicly explains why that is the case and the impact of underfunding (SchoolFunding.Info).

Recent Developments

The lack of an adjustment of assessed value at resale means that today, two properties that sell for identical prices can have widely different property tax payments resulting from their original assessed value in 1995 through 1996. In addition, compression is a growing concern for local governments throughout the state as the limits imposed by Measure 5 become more binding (Portland City Club 2013).

At the end of 2016, the Oregon Secretary of State issued findings from its audit of Business Oregon, the state's primary economic development agency. The audit examined loans, loan guarantees, grants, income tax incentives, and three property tax exemption programs. One of its findings was that enterprise zone property tax exemptions were concentrated in "relatively well-off urban and non-distressed areas" despite the program's original focus on lagging areas (Jones 2016).

Oregon enacted a major school funding bill in May 2019. Dubbed the Student Success Act, HB 3427 imposed a new 0.57 percent corporate income tax on gross receipts over \$1 million while reducing personal income tax rates. Democrats who supported the bill said it was meant to address school funding challenges that arose from Measure 5 property tax limits that shifted school funding to the state without creating a new revenue source to fill the gap (VanderHart 2019).

Resources

Davis, Matthew, and Andrea Vedder. 2014. "The Real Consequences of Property Tax Compression for Oregon Public Schools." (June). http://economics.uoregon.edu/wp-content/uploads/sites/4/2014/07/DavisVedderEC419_2104.pdf

Gaston, Christian. 2013. "Confused by Your Oregon Property Tax Bill? Ask the Property Tax Fairy." www.oregonlive.com/politics/index.ssf/2013/09/confused_by_your_oregon_proper.html

Jones, Paul. 2016. "Oregon Business Incentives Need Better Oversight, Audit Finds." *Tax Notes*. (December 22).

Novick, Steve. "Our Goofy Property Tax System." Oregon Department of Revenue.

Oregon Department of Revenue. "How Property Taxes Work in Oregon." www.oregon.gov/DOR/programs/property/Pages/property-taxes.aspx

Oregon Department of Revenue. 2009. "A Brief History of Oregon Property Taxation." www.oregon.gov/DOR/programs/gov-research/Documents/303-405-1.pdf

Oregon Legislative Revenue Office. 2010. "Oregon's Property Tax System: Horizontal Inequities Under Measure 50." Research Report #4-10. September. www.oregonlegislature.gov/lro/Documents/rr4-10H_InequitiesUnderMeasure50_092210.pdf

Portland City Club. 2013. "Reconstructing Oregon's Frankentax: Improving the Equity, Financial Sustainability and Efficiency of Property Taxes." <http://members.pdxcityclub.com/HigherLogic/System/DownloadDocumentFile.ashx?DocumentFileKey=e2c0c86b-beb2-46c7-a588-955760610323&forceDialog=0>

Shafroth, Frank. 2016. "Oregon's Troubled Local Property Tax System." *State Tax Notes* (February 15): 493-496.

SchoolFunding.Info. "Oregon." <http://schoolfunding.info/litigation-map/oregon/>

Significant Features of the Property Tax. www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax. Lincoln Institute of Land Policy and George Washington Institute of Public Policy.

VanderHart, Dirk. 2019. "After Tumultuous Week, Oregon Senate Passes Historic School Funding Bill." Oregon Public Broadcasting. May 13. www.opb.org/news/article/oregon-senate-passes-historic-school-funding-bill/

Youngman, Joan. 2016. "Tax Restrictions and Assessment Limits." In *A Good Tax: Legal and Policy Issues for the Property Tax in the United States*. Cambridge, MA: Lincoln Institute of Land Policy. www.lincolninst.edu/publications/books/good-tax

Publication Date

July 2019, data updated July 2020