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POTENTIAL MODIFICATIONS TO MEASURE 50 SEPTEMBER 25, 2008

Fundamental Problems Created by Measure 50:

- Constraints on assessed value (3% on existing property or Property Change Ratio) are projected to restrain local government revenue growth below the projected annual cost of services.
- Differential growth rates in market value for residential property means that over time there will be wide variation in the effective tax rate both within and across local taxing districts. As assessed values diverge further away from market values the link between the cost of providing services to property and the taxes paid by property erodes moving the revenue system further away from equity based on benefits received.

Policy Options to Alleviate Problems:

- **Rebase assessed value to market at time of transaction including new construction**
 - Pro
 - Slows long-term revenue loss for local governments
 - Preserves certainty for taxpayers when not buying or selling property
 - Minimizes cash flow disruptions for taxpayers
 - Con
 - Exacerbates horizontal inequities—taxpayers with equally valued homes paying widely different taxes
 - Creates incentive to lock-in residential property investments leading to dislocations in the state economy.
 - Will sharply increase the amount of compression under Measure 5
- **Establish ceiling and floor for property change ratio**
 - Pro
 - Slows long-term revenue loss for local governments
 - Constrains degree of horizontal inequities
 - Maintains certainty for those taxpayers above the minimum property change ratio
 - Con
 - Creates uncertainty over annual tax change once property change ratio floor is reached
 - Could allow for considerable horizontal inequities if property change ratio limits are set widely apart

- Revenue gains for local governments would be minimal if floor is set at low levels
- **Adjust 3% annual assessed value change with a 5-year moving average change in the consumer price index**
 - Pro
 - Allows property tax revenue growth to more closely match service cost increases for local governments
 - Maintains some certainty for taxpayers by limiting unexpected annual jumps in assessed values
 - Con
 - If inflation is high, taxpayers will receive higher annual property tax bills
 - Does not address horizontal equity issues
- **Maintain current system, Impose statewide real estate transfer tax**
 - Pro
 - Maintains certainty over annual property taxes for homeowners
 - Potentially generates substantial revenue for local governments
 - Minimizes cash flow problems for taxpayers
 - Require only statutory change
 - Con
 - Potentially discourages real estate transactions
 - Does not address horizontal inequities in current system
 - Potentially unstable source of revenue
- **Provide voters one time option to change permanent tax rates**
 - Pro
 - Allows for response to significant change in fiscal circumstances
 - Retains taxpayer certainty over value growth after change in permanent rate
 - Con
 - Does not correct variations in assessment ratios
 - Does not prevent erosion of revenue over the long-term
- **Repeal Measure 50/ Reset Measure 5 limits at \$10 per \$1,000 of market value (\$6.67 local governments, \$3.33 schools)**
 - Pro
 - Resolves inequities caused by variations in assessment ratios
 - Restores link between market value growth and revenue growth
 - Con
 - Reduces taxpayer certainty over year-to-year variations in tax bills
 - Will initially create winners & losers as assessed values are returned to market value
- **Retain Measure 50 as is/ Diversify local revenue system**
 - Pro
 - Retain taxpayer certainty over property tax bills
 - More closely align local revenue growth to local economy
 - Con
 - Does not address taxpayer inequities caused by Measure 50
 - Non-uniformity in local revenue sources could increase economic distortions and add to complexity for taxpayers