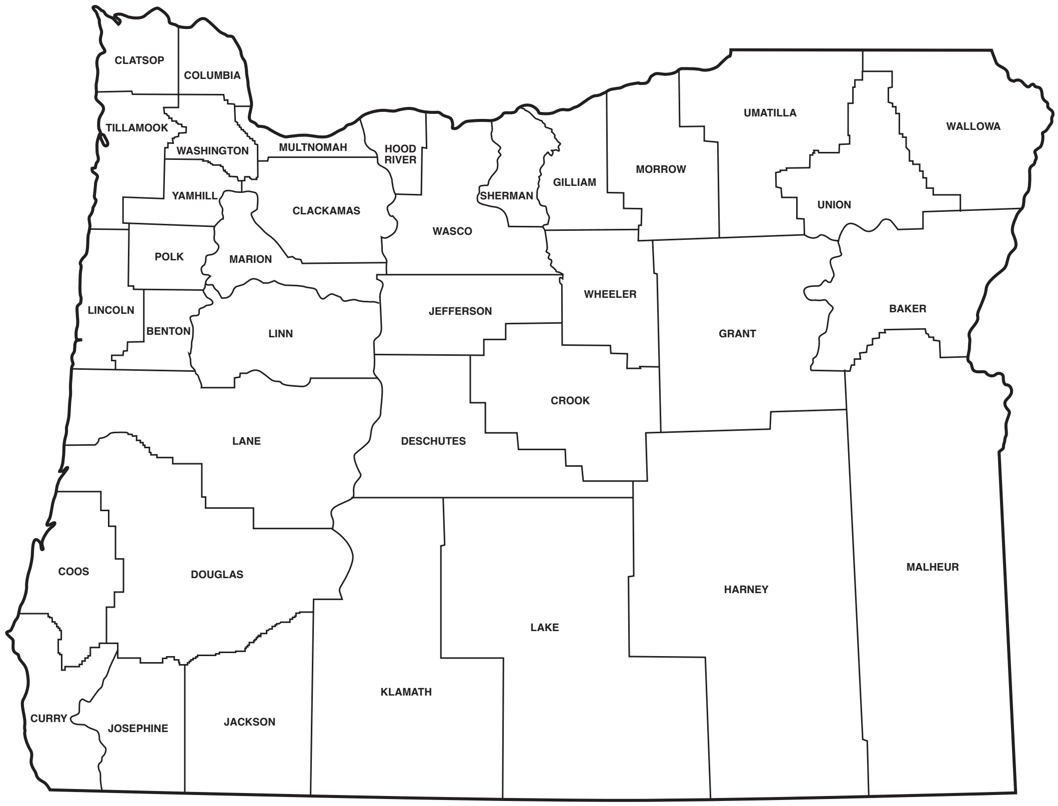

REPORT OF THE

Taxing District Property Tax Stabilization Review Group

TO THE

Governor's Federal Forest Payments and County Services Task Force

150-338-401 (03/08)

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Overview: The state and county relationship

Even before Oregon became a state, counties have held the statutory responsibility for administering the property tax, including:

- Setting values;
- Calculating tax rates;
- Issuing tax statements; and
- Collecting and distributing the tax to all counties, cities, schools, and special districts.

Counties fund this service for other local governments today from their permanent tax rate authority. The Oregon Department of Revenue partners with county assessment and taxation offices to ensure the system is administered uniformly throughout the state and to manage certain categories of highly specialized property appraisals.

It became apparent in the late 1980s that the Oregon property tax system was disintegrating. A lack of adequate funding resulted in county program reductions, leading to a diminished ability to maintain accurate values and retain property discovery programs. The fallout was a non–uniform system that treated taxpayers differently and left legitimate tax revenue on the table when local governments needed it the most.

The 1989 Oregon Legislature created the County Assessment Function Funding Assistance (CAFFA) fund to support the system and to assure that counties could adequately fund the assessment and taxation function. At that time, the CAFFA fund generated more than 30 percent of the county costs to operate the system.

Today, the CAFFA fund generates about $20 million per year or about 23 percent of the total county system costs. The CAFFA fund is derived from a $9 fee on most recorded documents at the county and a portion of the delinquent taxes paid at the county. On a quarterly basis, every county sends their CAFFA collections to the state. The state redistributes the dollars to the counties based on the percentage a county spends on assessment and taxation compared to the total amount spent on assessment and taxation statewide.

For example, if the total statewide county cost for assessment and taxation is $100 million and Coos County spent $3 million, Coos County would get 3 percent of the total dollars in the CAFFA fund.

This report addresses two issues with county property tax assessment and tax collection funding:

1. A broader base for the revenue stream; and
2. An indexing factor that recognizes inflation.

These issues can be resolved by stabilizing assessment and taxation revenue. This may require replacing the county permanent tax rate as the primary funding source as it is not reliable, may not be sufficient in every county, and was established with unrealistic assumptions, such as federal revenue continuing forever. Stabilization may also require indexing the CAFFA revenue streams to ensure the significance of its contribution.

County Impacts

Given the likelihood of an end to federal revenues from the Secure Rural Schools Act, it is no surprise that some counties are talking about severe cuts, loss of the participation in the CAFFA grant program, and the potential relinquishment of assessment and taxation services to the state. Last year, two counties reduced expenditures below the amounts certified in their grant. One of those counties performed below the adequate threshold and is currently on a plan of assistance, which the department is closely monitoring. This year, grant applications are not due until May 1. We will not know how county budget issues affect their ability to adequately fund their assessment and taxation programs until that time.

If a county is unable—or chooses not—to commit adequate resources to the assessment and taxation program, that county risks loss of their CAFFA grant. Additionally, ORS 308.062 requires that the department step in and assume responsibility for administration of the county's assessment and taxation function in the event a county fails to perform its statutory duties.

Taxing District Property Tax Stabilization Review Group

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Taxing District Property Tax Stabilization Review Group findings and recommendations:

The failure of federal reauthorization of the Secure Rural Schools Act (PL 106-393) destabilized funding of local government tax administration. In October 2007, the Department of Revenue convened a workgroup to identify potential solutions and propose recommendations to address the issue. The group consisted of representatives from organizations that administer or receive property taxes.

The group met four times between October 2007 and January 2008 to discuss and consider viable solutions. The group approached the task recognizing that reauthorization of the federal funding was unlikely and that a systemic solution would require a constitutional amendment to the Measure 50 permanent rates, which may be politically unpopular and at best three to five years in the making. While every member recognized that stabilizing assessment and taxation funding would not solve the loss of federal revenues to counties and school districts, the members understood that, at a minimum, we should offer recommendations to ensure the loss did not interrupt the continuation of property tax appraisal, billing, and collection services, thereby worsening the revenue shortfall.

The group brainstormed 15 ideas, ranging from revenue replacement to reduction of administration costs through efficiencies. The group decided to focus on ideas that could be accomplished in the near-term and for which consensus could be reached.

With those guidelines, the group generally agreed on the following:

- The property tax is the single most stable and significant source of local government revenue. The ability of counties to accurately and fully assess property values ensures that taxes can be properly and equitably collected. Anything that takes away from the stability of the revenue stream is of serious concern to both local governments and the state, which relies on local governments to deliver vital services.
- The group supports placing **all** delinquent interest on property taxes into the County Assessment Function Funding Assistance (CAFFA, county grant funding program) fund to support the statewide assessment and taxation system. Some delinquent interest is currently deposited into the fund. The additional delinquent interest would add approximately $15 million per year.
- The group supports a recommendation to pursue an increase in funding from the state general fund of $15 million per year for the statewide assessment and taxation system.
- Additional revenues to support the assessment and taxation system, once identified and committed, should be dedicated and distributed through the CAFFA program.
- The idea of an administrative fee received the most discussion, but was not supported by the entire group. The fee would be paid by local governments to supplement the costs of assessment, billing, and collection functions of the property tax system.

- The group supported a review of Measure 50 to address three areas in particular; the inflexibility of operating tax rates, the double majority voting requirements, and the relationship between market and taxable values.
- The Taxing District Revenue Stabilization Group recognizes there is a larger issue that needs to be addressed and expresses willingness to collaborate on an overall solution. The group has taken the initiative to offer recommendations to stabilize county tax administration, the one county function whose financial stabilization directly affects their own.

Please see appendices D and E for more information regarding the groups' work.

Chart 1 depicts CAFFA contributions relative to the total county funding for assessment and taxation today.

Chart 1: Current Funding of County Assessment and Taxation Expense

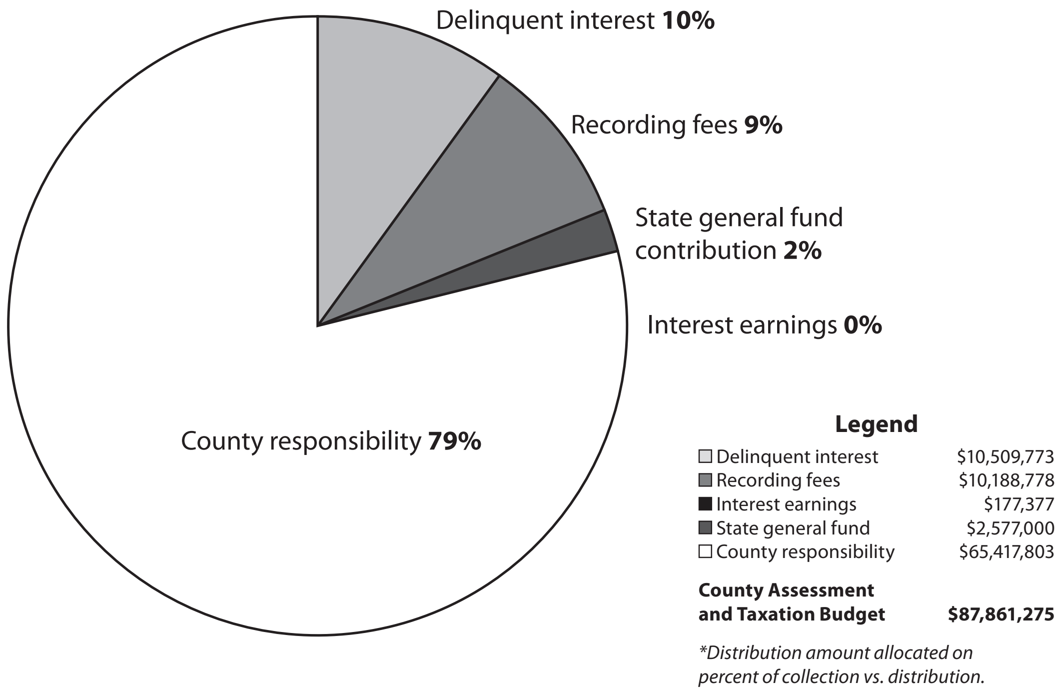
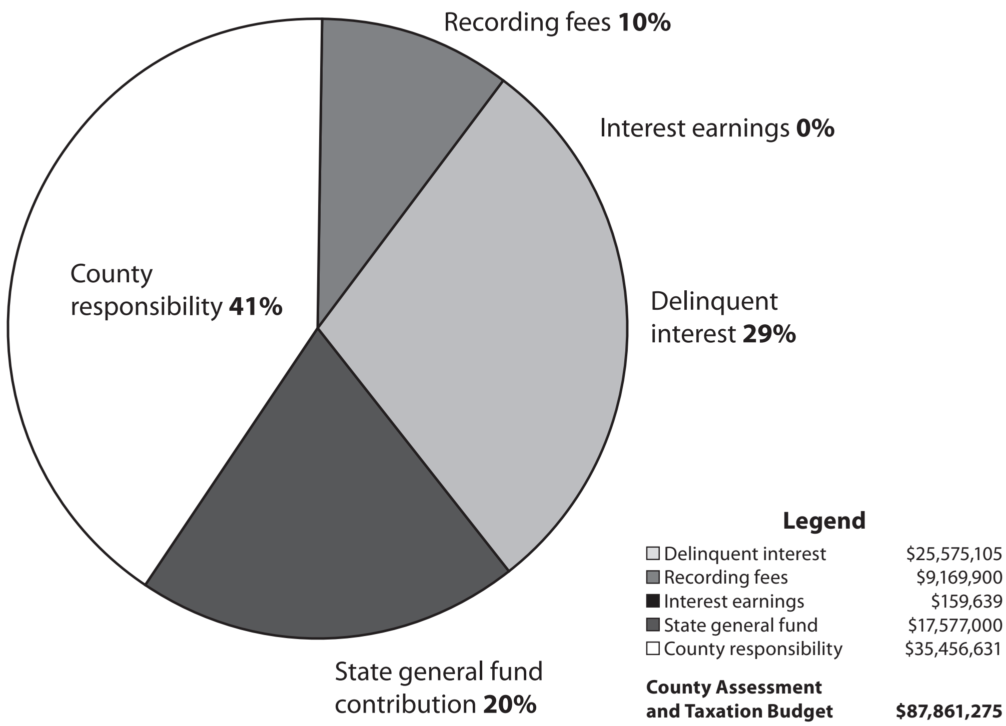


Chart 2 depicts the proposed CAFFA contributions for assessment and taxation if the recommendations are accepted.

Chart 2: County Assessment and Taxation Funding Recommendation



Three-Year CAFFA Disbursements by County

	2005-06			2006-07			2007-08		
County	Total Expenditures Certified	CAFFA Disbursements	Percentage	Total Expenditures Certified	CAFFA Disbursements	Percentage	Total Expenditures Certified	CAFFA Disbursements	Percentage
Baker	$812,245	$207,021	25.5%	$927,172	$205,692	22.2%	$948,629	$211,823	22.3%
Benton	$2,106,848	$529,262	25.1%	$2,073,262	$478,501	23.1%	$2,002,800	$454,209	22.7%
Clackamas	$5,360,776	$1,345,207	25.1%	$5,773,940	$1,300,257	22.5%	$6,016,004	$1,336,931	22.2%
Clatsop	$1,806,916	$464,732	25.7%	$1,748,457	$405,461	23.2%	$1,749,756	$393,023	22.5%
Columbia	$1,823,510	$433,358	23.8%	$1,816,076	$417,740	23.0%	$1,659,994	$382,368	23.0%
Coos	$2,011,053	$503,801	25.1%	$2,097,695	$476,440	22.7%	$1,883,085	$436,024	23.2%
Crook	$898,629	$223,188	24.8%	$1,144,567	$247,278	21.6%	$1,039,043	$239,809	23.1%
Curry	$1,394,040	$346,006	24.8%	$1,173,694	$283,737	24.2%	$996,429	$234,571	23.5%
Deschutes	$4,193,310	$1,075,065	25.6%	$4,513,488	$1,016,589	22.5%	$4,761,478	$1,054,730	22.2%
Douglas	$2,562,462	$651,452	25.4%	$2,873,338	$640,338	22.3%	$2,748,403	$625,008	22.7%
Gilliam	$382,016	$97,694	25.6%	$408,950	$92,242	22.6%	$432,472	$95,738	22.1%
Grant	$503,126	$126,460	25.1%	$543,613	$122,317	22.5%	$541,713	$121,816	22.5%
Harney	$704,476	$179,597	25.5%	$718,083	$164,120	22.9%	$734,896	$164,086	22.3%
Hood River	$823,213	$207,891	25.3%	$829,468	$190,181	22.9%	$826,546	$185,869	22.5%
Jackson	$3,968,332	$991,435	25.0%	$4,632,796	$1,022,023	22.1%	$4,328,180	$990,780	22.9%
Jefferson	$837,762	$222,642	26.6%	$866,844	$197,311	22.8%	$882,569	$197,328	22.4%
Josephine	$1,888,060	$482,427	25.6%	$1,900,818	$435,921	22.9%	$1,981,270	$440,252	22.2%
Klamath	$1,210,773	$313,789	25.9%	$1,415,678	$312,188	22.1%	$1,427,181	$319,936	22.4%
Lake	$658,102	$167,683	25.5%	$636,786	$147,670	23.2%	$736,688	$159,468	21.6%
Lane	$6,687,302	$1,650,065	24.7%	$7,109,817	$1,606,594	22.6%	$6,873,614	$1,558,505	22.7%
Lincoln	$2,111,736	$533,553	25.3%	$2,589,225	$564,424	21.8%	$2,511,789	$568,980	22.7%
Linn	$2,791,082	$703,249	25.2%	$2,992,805	$674,756	22.5%	$3,050,473	$681,836	22.4%
Malheur	$862,805	$225,486	26.1%	$943,809	$211,680	22.4%	$872,560	$200,336	23.0%
Marion	$6,719,931	$1,704,152	25.4%	$6,133,338	$1,446,655	23.6%	$6,300,239	$1,405,330	22.3%
Morrow	$618,739	$160,641	26.0%	$634,639	$144,801	22.8%	$612,759	$138,985	22.7%
Multnomah	$13,886,045	$3,490,564	25.1%	$14,193,298	$3,241,467	22.8%	$14,701,087	$3,272,070	22.3%
Polk	$1,410,941	$355,316	25.2%	$1,542,324	$345,980	22.4%	$1,522,990	$343,324	22.5%
Sherman	$442,964	$106,687	24.1%	$401,749	$94,938	23.6%	$379,029	$86,526	22.8%
Tillamook	$1,905,390	$489,636	25.7%	$1,916,666	$439,657	22.9%	$1,892,454	$426,623	22.5%
Umatilla	$2,023,001	$525,157	26.0%	$2,072,219	$472,975	22.8%	$2,092,538	$468,883	22.4%
Union	$977,177	$245,333	25.1%	$973,739	$223,948	23.0%	$1,015,610	$225,637	22.2%
Wallowa	$370,054	$96,347	26.0%	$443,621	$97,231	21.9%	$443,871	$99,705	22.5%
Wasco	$935,119	$234,328	25.1%	$916,986	$211,846	23.1%	$1,003,369	$220,197	21.9%
Washington	$6,187,334	$1,568,682	25.4%	$6,624,008	$1,494,070	22.6%	$7,051,767	$1,558,405	22.1%
Wheeler	$280,478	$70,733	25.2%	$287,861	$65,668	22.8%	$314,896	$69,111	21.9%
Yamhill	$1,887,779	$471,366	25.0%	$1,990,447	$450,775	22.6%	$1,852,734	$424,559	22.9%
Totals	**$84,043,526**	**$21,200,007**	**25.2%**	**$87,861,276**	**$19,943,472**	**22.7%**	**$88,188,915**	**$19,792,781**	**22.4%**

Total Expenditures Certified: Budgeted Assessment and Taxation expenditures for each county. This is the basis upon which the CAFFA distributions are determined.

CAFFA Disbursements: Total amounts received by each county out of the County Assessment Function Funding Assistance Account.

Percentage: The percentage of county Assessment and Taxation expenses that is covered by CAFFA disbursements.
This chart does not include distribution of the approximately $2.6 million state general fund contribution.

Appendix A: Scope of the work group

I. What is the shared funding relationship for the administration of state/county assessment and taxation?

The Department of Revenue (DOR) distributes grant funds to Oregon counties through the CAFFA account. County assessment and taxation expenditures totaled $87.8 million for the 2006-07 tax year. CAFFA grants fund approximately 23 percent ($19.9 million in 2006-07) of the annual expenditures.

An appropriation from the state's general fund of more than $2.5 million per year is added to the CAFFA payment.

The following chart shows the statewide assessment and taxation (A&T) administration cost:

Fiscal Year	County Assessment and Taxation Administration Cost	DOR Assessment and Taxation Administration Cost	Total Statewide Assessment and Taxation Administration Cost
2002–03	$71,548,366	$11,368,236	$82,916,602
2003–04	$75,042,674	$11,195,488	$86,238,162
2004–05	$79,579,498	$11,611,996	$91,191,494
2005–06	$84,043,526	$11,771,343	$95,814,869
2006–07	$87,861,275	$11,554,205	$99,415,480

The following chart compares the CAFFA contribution to assessment and taxation administration cost:

CAFFA Contribution for County Assessment and Taxation (A&T) Program

Fiscal Year	CAFFA Distribution*	State General Fund Added to CAFFA Distribution	TOTAL CAFFA	Percent of County A&T Cost Covered by CAFFA	DOR Administered Payment as a Percent of Total Statewide A&T Cost**
2002–03	$23,459,115	$2,500,000	$25,959,115	36.28%	45.02%
2003–04	$23,976,953	$2,500,000	$26,476,953	35.28%	43.68%
2004–05	$20,732,522	$2,500,000	$23,232,522	29.19%	38.21%
2005–06	$21,200,007	$2,500,000	$23,700,007	28.20%	37.02%
2006–07	$19,943,472	$2,577,500	$22,520,972	25.63%	34.28%

* Grant funds available to counties, net of distribution to the Department of Revenue.

** Total CAFFA plus DOR A&T administration cost, divided by total statewide A&T administration cost.

II. What is the shared service delivery relationship between the state/county for assessment and taxation administration?

The following chart shows the state and county and joint responsibilities:

Property Tax Administration	
County	**DOR**
Valuation of residential, commercial, and small industrial property	Valuation of large industrial and utility property
Property tax calculation	General county supervision
Property tax collection	County assistance
Property records	County education
Appeals	Appeals (large industrial and utility)
Mapping (22 counties)	Mapping (14 counties)

Joint Responsibility Areas

III. What is the quantity, size, and effect of budget reductions (to date)?

The department reviews county budgets each year to ensure adequate funding for assessment and taxation services. County funding determined to be below adequate levels may be excluded from receiving CAFFA funds. For the current budget cycle (2007-08), all but one county (Curry) was deemed to have adequate assessment and taxation funding.

Curry County was permitted to participate in CAFFA revenues and operate under a special statutory dispensation at a level that would normally be deemed less than adequate. As a condition of this special circumstance, the department has worked closely with the county to monitor all assessment and taxation programs and assist in compliance.

The following resulted from Curry County's budget reduction of approximately $100,000:

- Staff reductions (from 12.46 FTE to 8.96 FTE).
- Reduced public service (county office open half-time).
- Delayed deed processing.

IV. What are the estimated impacts from delay, loss, or reduction of federal forest payments?

With the exception of Curry County, Oregon counties are operating assessment and taxation programs at adequate levels. "Current," "Mandatory," and "Baseline" service levels are generally interchangeable concepts because historical service levels have been relatively constant at adequate levels.

The following chart estimates impacts to county assessment and taxation service levels:

Current/Baseline/Mandatory Service Levels	
Immediate Impacts	**Result of Immediate Impacts**
Inaccurate property value	Tax revenue loss, appeals, and inequities
Missed new property value	Tax revenue loss, appeals, and inequities
Inaccurate processing: Personal property returns Real property returns Combined property tax	Tax revenue loss, appeals, and inequities
Inaccurate property records	Delayed and/or misdirected tax statement
Inaccurate mapping	Missed map changes, over/under assessment
Inaccurate special assessments	Over/under assessment and increased appeals

Long-term, the "Current," "Baseline," and "Mandatory" service levels will, at minimum, compound the immediate impacts. For example, as property value is omitted from the assessment roll, the impact is compounding inaccuracy (incorrect real market values that ultimately lead to reduced property taxes available for collection). This increases the amount of potential tax revenue loss to all districts.

The long-term impact to optimal service levels is difficult to estimate. Most counties are currently operating close to the minimal threshold of assessment and taxation adequacy. For counties operating in a hypothetical, optimal level, the fallout might have less impact if the county is able to reduce their budgetary commitment and still meet assessment and taxation mandatory minimum service levels.

V. What is the potential for and impact of counties terminating programs and turning service over to the state?

Counties are mandated to fund a minimum level of assessment and taxation administration. As previously discussed, counties that fall short of funding essential programs will not share in CAFFA revenues. For counties that cut essential (mandatory) programs, impacts will be:

- Delays in core functions.
- Elimination of customer service.
- Delays in processing tax collections.
- Delays in tax distribution.
- Increased cost to state.
- DOR assumes responsibility at county level.

The results of these impacts have the potential to cause a loss in revenue to taxing districts.

Mandatory assessment and taxation programs not funded by counties will, by law, become DOR responsibility. From the department's initial assumed responsibility, all services will be administered at minimum levels. It is very likely that the department will be unable to administer local functions at the same level as counties. The cost to the state will be partially offset by the county portion of CAFFA revenue and from other non-dedicated shared revenues, such as cigarette, liquor, and amusement taxes. Counties will be billed for balance due.

VI. What are potential changes to state rules and mandates?

Oregon law establishes the basis for county assessment and taxation functions. Amending or eliminating statutes or rules would permit counties and the state to modify its assessment and taxation policies. However, many assessment and taxation functions are linked and eliminating a statutory requirement may result in unintended or negative consequences down the road. Additionally, a policy or law change has the potential to create more administrative work, adding cost rather than lessening the burden to a county or the state.

Modify tax district permanent rates:

Permanent tax rates were established with the passage of Measure 50 in 1997. Taxing districts are limited by these rates.

This change allows for the permanent rate to increase.

Remove tax limitation:

Oregon's constitutional Measure 5 (1990) limits collection of property taxes to $5 for schools and $10 for general government per $1,000 of real market value.

This change removes tax collection loss due to limitation.

VII. What are potential changes to state/county regional service delivery models?

Centralized assessment and taxation software system:

There are approximately seven different systems utilized by the 36 counties. Counties with different systems are presented with difficulties in communicating with each other. DOR review and understanding of county assessment and taxation functions are also unclear.

With this option, the department would contract for and maintain a single assessment and taxation software system available for county use (similar to adjacent states).

DOR processing of personal property returns:

Counties are required to process returns and conduct audits and discovery.

With this change, the department would take over this function for the county as it does for centrally assessed property. DOR budget would have to be increased to absorb transferred cost. Tax revenues would likely suffer unless costs for local field representatives were covered.

Appendix B: Questions to address based on state and county responses

The following questions were asked of the department by the taskforce. Department staff conducted the research and responses.

Are there areas where the state is phasing in enhanced funding or in-kind support for the counties where we can accelerate those efforts?

No

Where funding from the state to the counties has been improved, how can we keep it up to date over time?

Legislative appropriation is becoming more important as the portion of CAFFA county deposits from delinquent interest and recording fees is decreasing.

Are there recommendations on the shelf, e.g from prior studies of service delivery, that we could bring forward at this time?

1. Previous discussions have indicated there may be benefit for having DOR provide personal property processing.
2. Opportunities exist to provide Web-based services, such as applications and filing information.

Are there service/funding models that were abandoned because of prior funding constraints that make sense to be restored?

No

Are there efficiencies to be gained from combining local service delivery in regional models (e.g. COGs, LPSCCs)?

There are potential efficiencies from the following:

1. A single assessment and taxation system administered by DOR.
2. Regionalizing board of property tax appeals.
3. Centralized sales ratio (a measure of appraisal program performance) reporting.

Are there threats on the horizon that will reduce or destabilize county funding, e.g. ballot initiatives for 2008? Are there opportunities on the ballot to improve funding or operational flexibility for counties? [Caveat: We may not use public resources, including public employees' paid time, to support or oppose a ballot measure.]

Clatsop County—and likely other counties—is facing a reduction of timber harvest revenue from state forests due to a number of factors including declining timber values and a reduction in the level of harvest. Increased harvest levels could be used to offset some county shortfall if there is a market for the timber.

Appendix C: CAFFA overview

Background

In the early 1980s, the decline in Oregon's economy took its toll on the property tax system. Failure to maintain current values on properties and large staff cuts created huge problems for county assessment offices. These problems included inequities in the system and taxpayers paying too much or not enough, resulting in increased taxpayer appeals and joint taxing district inequities. To reverse this deterioration, the 1989 Oregon Legislature enacted House Bill 2338. It created the CAFFA program, establishing an annual grant to counties to help finance assessment and taxation costs (ORS 294.175, et. seq.). The program is funded by document recording fees and a portion of interest from delinquent property taxes. Each county turns over their share of these fees and interest from delinquent taxes to the account and the department redistributes these funds back to the counties after deducting amounts to pay for work that the department absorbed on behalf of the counties and administrative costs.

How CAFFA works

In order to receive a distribution from the CAFFA grant program, each county must annually submit a proposed assessment and taxation budget to the department. If the department agrees that the proposed budget is adequate to comply with the statutes which ensure equity and uniformity within and between counties, the department certifies the budget and allows the county to participate in the program for that year. If the proposed budget is inadequate, the department works with the county to bring the proposed budget to adequacy.

Each county receives a share of the CAFFA grant funds based upon the percentage that their certified assessment and taxation budget bears to the total of certified county assessment and taxation budgets statewide.

Current challenges with the CAFFA program

The CAFFA grant program has worked very well for nearly two decades. However, the recent funding crisis spurred by the imminent loss of federal forest revenues is threatening to upset the fragile balance that has been achieved. Many counties are finding that they may not have enough dollars to adequately fund essential county services. If the county assessment and taxation function is among those services that are not funded adequately, the department is required by statute to not allow that county's participation in the grant program for that year (ORS 294.175). Additionally, if a county fails to appropriate 100 percent of the certified assessment and taxation expenditures, the department is required to redirect that county's share of CAFFA revenues to the other counties that remain in compliance (ORS 294.178). We are hearing rumors that either or both of these scenarios may come to pass in the next few months. We are as concerned about the need to withhold revenues from counties already in crisis as we are about the long term impacts of inadequately funded assessment and taxation programs in those impacted counties.

Appendix D: Discussion to focus workgroup—our parameters

Ideal solution/preferred solution/realistic solution/is there a single solution?

For county property tax administration, the number one solution is reauthorization of the federal funds. The number two solution is a reworking of the tax structure. Any plan to rethink the structure has to start with a look at the fundamental assumptions in Measure 50 and would require a constitutional amendment. Changes with the potential to address the flawed assumptions include:

- Reconsideration of the tax base of local governments (permanent rates);
- The ability of citizens to determine the levels of services they want to pay for; and
- Appropriate indexing to allow for increase in demand resulting from growth and inflationary factors.

A constitutional amendment to the Measure 50 limitations holds the potential to allow local governments to solve their own funding problems. However, it is a controversial change that would take years to achieve and is not a targeted solution to the current funding challenges.

We believe that we cannot afford a collapse or severe deterioration in this function, not only because of the exponential loss of property tax revenue it will create, but the uniformity issues that, once in place, would be irreversible. It is essential to pursue changes to Measure 50 in spite of the political challenges, but realistically that is a long term project and Oregon cannot afford to suffer continuing reductions in services in the meantime.

Therefore, we decided to focus on realistic solutions; solutions we have some control over at the state level and that would not take two to three years to set in place.

As a result, the focus of the group evolved into discussion of dedicated replacement revenue. Statewide enactment of replacement revenue poses problems with targeting affected counties while ensuring uniformity. For example, a statewide revenue replacement solution would provide added revenue to counties unaffected by the failed reauthorization of PL 106-393. A more targeted enactment of a recording fee in only 12 of 36 counties, varying among timber counties to coincide with their relative loss of allocated federal funds, creates uniformity challenges. We reasoned that any responsible solution should attempt to anticipate other embedded assumptions and protect against them.

The group identified criteria against which each replacement revenue source should be examined:

- Balanced;
- Adequate;
- Equalized;
- Politically viable;
- Dedicated;
- Stable; and
- Indexed.

Appendix E: Workgroup recommendations and other ideas seriously discussed

Recommendations:

- **Place all delinquent interest on property taxes into the CAFFA fund** to support the statewide assessment and taxation system. Some delinquent interest is currently deposited into the fund. The additional delinquent interest would add approximately $15 million per year.
  - — **Pros:** Simple administration if added to the CAFFA account.
  - — **Cons:** Insufficient alone.
  - — **Political viability:** Affected parties all agree.
  - — Requires a **statutory** change.
  - — **Affected groups:** Members of the Taxing District Property Tax Stabilization Review Group.
  - — **Equalizes** through the CAFFA distribution, but does not favor timber counties.
  - — Would provide moderately **stable** revenue.
  - — Could be **dedicated** if funneled through the CAFFA account.
  - — Is not **adequate** in and of itself and is subject to external factors.
  - — As part of a package, it could provide **balance.**
  - — **Short term** objective: 2009 session.
- **Pursue an increase in funding from the state general fund** of $15 million per year for the statewide assessment and taxation system.
  - — **Pros:** Simple administration if added to the CAFFA account.
  - — **Cons:** Does not address the funding disparity.
  - — **Political viability:** General fund revenue is in high demand.
  - — Requires a **statutory** change.
  - — **Affected groups:** Many and varied.
  - — **Equalizes** through the CAFFA distribution, but does not favor timber counties.
  - — **Stability** depends on biennial commitment.
  - — Could be **dedicated** if funneled through the CAFFA account.
  - — Is not **adequate** by itself.
  - — As part of a package, it could provide **balance.**
  - — **Short term** objective: 2009 session.
  - — Could be **indexed**.

Revenue ideas seriously discussed:

- **Administrative fee.** The group was split on the idea of an administrative fee to be paid by all taxing districts for the assessment and collection services provided by the county on their behalf. Apart from the idea of paying the fee, the group discussed how the fee would be allocated to fairly balance the burden.
  - — **Pros:** Simple administration, reasonable connection between fee and service, removes county as primary source of funding.
  - — **Cons:** Difficulty in determining local governments' relative share of a fee
  - — **Political viability:** Challenging without support of the workgroup.
  - — Requires a **statutory** change.
  - — **Affected groups:** All taxing districts, including counties.
  - — **Equalizes** through the CAFFA distribution.

— If successful, would provide **stable** funding.
— Could be a **dedicated** source.
— **Adequacy** is subject to adjustment factors.
— **Short term** objective: 2009 session.

- **Increase in the document recording fee.** The current funding scheme uses in part a $9 recording fee dedicated to assessment and taxation. The fee was initially implemented in 1989 at $20 on a narrow range of documents and then reduced to $9 in the late 1990s, but applied to a wider range of recorded documents. Recording fees have a link to property tax records since much of the real estate and title insurance industry relies on county assessment and tax records. The group expressed support for the concept, but declined to recommend it due to concerns around political viability.

— **Pros:** Simple administration.
— **Cons:** Adds to existing cost of recording.
— **Political viability:** Competing interests in recording fees, three-fifths issue.
— Requires a **statutory** change.
— **Affected groups:** County clerks, realtor groups, title companies.
— **Equalizes** through the CAFFA distribution, but does not favor timber counties.
— If successful, would provide a source of moderately **stable** funding.
— Could be a **dedicated** source.
— **Adequacy** and tolerability is a delicately balanced equation.
— **Short term** objective: 2009 session.

- **Expand the use of the shared services fund concept.** This concept, outlined in SB 954 during the 2007 legislative session, provides that when the state grants property tax exemptions that limit local government revenue, yet creates jobs that result in increased state government income tax revenue, the state windfall should be shared with the local governments.

  Essentially, this occurs in all property tax exemptions involving job creation. It is based on the theory that state-granted property tax exemptions targeted at economic growth result in a loss of local government property tax revenue and an increase in state income tax collections.

— **Pros:** Creates a return on investment model.
— **Cons:** Moderately complex administration, might worsen the problem in terms of struggling timber counties lacking job growth, solution too narrowly focused.
— **Politically viable:** Unsure.
— Requires a **statutory** change.
— **Affected groups:** Legislature, OECDD.
— Would not necessarily **equalize** funding.
— Would not greatly improve the current **instability.**
— Could be a **dedicated** source.
— Would remain **inadequate**.
— **Long term** objective: Would take at least three to five years to realize any local government benefit.

- **State property tax rate.** The law currently allows a state property tax, but there is no state property tax rate or levy at this time. A state property tax could be used to fund, in whole or in part, the assessment and collection function.

— **Pros:** Would not be complex to implement.
— **Cons:** Would compete in the $10 general government category.
— **Politically viable:** Unsure, three-fifths majority issue.

— Requires a **statutory** change.
— **Affected groups:** Legislature, taxpayers.
— Has the potential for **equalization,** similar to the education model.
— Would provide **stability.**
— Could be a **dedicated** source.
— Could be **adequate** depending on the revenue generated.
— **Long term** objective: Would take at least two to three years to realize.

Efficiencies

- **Regionalize and centralize the assessment and taxation function.** While this has potential for savings and efficiencies, counties would have to relinquish longstanding local control to either a regional entity or to the state. Some may gladly hand over the responsibility, especially in times of funding crisis.

  — **Pros:** Uniformity, economies of scale.
  — **Cons:** Local control issues, the conversion could be intense and costly.
  — **Political viability:** Unknown, more likely in hard economic times.
  — Requires at least a **statutory** change.
  — **Affected groups:** County and state government.
  — Does not necessarily **equalize.**
  — Since this is not a revenue source **stability** is not at issue.
  — Since this is not a revenue source **dedication** is not at issue.
  — Since this is not a revenue source **adequacy** is not at issue**.**
  — **Long term** objective.

- **Eliminate the 2 and 3 percent discount** currently allowed for taxpayers who pay either two-thirds or all of their tax payment by November 15.

  — **Pros:** Moderately simple administration.
  — **Cons:** May be seen as an entitlement, insufficient alone.
  — **Political viability:** Risky, would upset taxpayers, three-fifths issue.
  — Requires a **statutory** change.
  — **Affected groups:** Taxpayers, taxing districts.
  — Does not necessarily **equalize.**
  — Subject to taxpayer behavior, probably **unstable** if not coupled with accelerated delinquent interest.
  — Could be a **dedicated** source.
  — **Adequacy:** No.
  — **Short term** objective: 2009 session.

Appendix F: General assessment and taxation statistics

Quick stats

1. **Total property tax revenue annually**
   Source: Oregon Property Tax Statistics 2006-07, Exhibit 2a

Total Property Tax Revenue 2006–07 (in millions of dollars)		
K–12 and ESDs	$1,640.0	(40%)
Community Colleges	161.3	(4%)
Cities	920.5	(23%)
Urban Renewal	164.8	(4%)
Counties	746.5	(18%)
Special Districts	444.2	(11%)
Total	**$4.08 billion**	

2. **Cost of county administration**
   Source: 2007 Health of the Property Tax System, performance measure 1

Cost of Property Tax System Administration			
Fiscal Year	**County Administrative Costs**	**Department Administrative Costs**	**County/Department Combined Administrative Costs**
2001–02	$68,910,435	$12,155,589	$81,066,024
2002–03	$71,548,366	$11,368,236	$82,916,602
2003–04	$75,042,674	$11,195,488	$86,238,162
2004–05	$79,579,498	$11,611,996	$91,191,494
2005–06	$84,043,526	$11,771,343	$95,814,869

3. **Total Federal Forest Fund discretionary revenue**
   Source: Association of Oregon Counties, PL 106-393 status report, Summer 2007

The Association of Oregon Counties estimates Oregon counties and schools will lose more than $230 million annually if the Secure Rural Schools Act (PL 106-393) is not reauthorized. Losses break down as:

Federal Forest Payments (PL 106-393)	
County general funds	$107,694,187
County road funds	91,515,327
Oregon school funds	31,000,000

4. **County property tax administration funding supplement**
Source: CAFFA deposits as reported to the department

Funds for the CAFFA grants are derived from:

- A percentage of interest collected on delinquent property tax accounts; and
- A fee on most documents recorded with the county clerk.

CAFFA Revenue				
Fiscal Year	**Tier 1 and 2 Delinquent Interest**	**Recording Fee**	**Interest Earnings**	**Total**
2002–03	$14,042,996	$11,805,175	$103,313	$25,951,484
2003–04	$13,461,467	$12,408,091	$60,706	$25,930,264
2004–05	$11,664,673	$10,470,984	$79,443	$22,215,100
2005–06	$12,027,061	$11,259,336	$147,756	$23,434,153
2006–07	$11,677,525	$10,188,778	$177,377	$22,043,679

** Totals include county and DOR share.*

Tier 1 and tier 2 delinquent interest in the CAFFA grant formula refers only to the interest deposited into the County Assessment and Taxation Fund (CATF) for disbursement in the grant program. Specifically:

Delinquent interest, tier 1: Twenty-five percent of the delinquent interest payments collected are deposited into CATF. This deposit amount is typically referred to as the tier 1 interest payment.

Delinquent interest, tier 2: The counties set aside an additional 25 percent of the total interest collected from cities and special districts for deposit into CATF. This is usually referred to as tier 2. County government and school districts do not participate in tier 2.

The balance of the delinquent interest is disbursed to all districts in the county in proportion to the taxes levied.

5. **State general fund special payments to counties**
Source: 2007-09 Legislatively Adopted Budget

Counties receive a state general fund appropriation to support their property tax administration functions. The 2007 legislature approved $2,577,500 per year ($5,155,000 per biennium), distributed by the Department of Revenue to the counties using the same distribution percentage as the CAFFA grants.

Appendix G: Sources of county payments

CAFFA

In 1989, the Oregon Legislature passed HB 2338, creating the *County Assessment Function Funding Assistance (CAFFA) Fund*. Responding to a coalition of legislators, industry, educators, and state and local officials, the legislature enacted HB 2338 to reverse the disintegration of the property tax system and to recognize a shared responsibility for statewide uniformity and accuracy in assessment and taxation. This legislation established an annual grant program that provides counties approximately $20 million per year to help pay for county assessment and taxation costs. Funding for the grant comes from document recording fees and a portion of the interest from delinquent property taxes.

Pass-thru payments

In 1999, the Oregon Legislature established an additional general fund appropriation to counties to help stabilize assessment and taxation funding. This appropriation, which is included in the department's biennial budget, originally amounted to $5 million from the state general fund. The appropriation was increased in the 2007-09 budget to $5.155 million to account for inflation.

ORMAP

The *Oregon Map Project (ORMAP)* is developing a statewide property tax lot base map that is digital, continually maintained, and publicly accessible. The move from paper to computer-based mapping will improve the administration of Oregon's property tax system and will support an array of public and private geographic information systems (GIS) applications by October 2012. Funding for the project comes from a $1 addition to document recording fees.

Distributions to Counties

COUNTY	CAFFA Disbursements July 05 - June 06	CAFFA Disbursements July 06 - June 07	CAFFA Disbursements July 07 - June 08	CAFFA Disbursements Total	Pass - Through Payments July 05 - June 06	Pass - Through Payments July 06 - June 07	Pass - Through Payments July 07 - June 08	Pass - Through Payments Total	ORMAP Payments July 05 - June 06	ORMAP Payments July 06 - June 07	ORMAP Payments July 07 - June 08	ORMAP Payments Total	Total Payments July 05 - June 06	Total Payments July 06 - June 07	Total Payments July 07 - June 08	Total Payments Total
BAKER	207,021	205,692	211,823	624,537	24,413	25,784	27,584	77,782	4,575.50	3,016.06	27,727.00	35,319	236,010	234,493	267,134	737,637
BENTON	529,262	478,501	454,209	1,461,972	62,413	59,982	59,149	181,544		81,800.00		81,800	591,675	620,283	513,357	1,725,316
CLACKAMAS	1,345,207	1,300,257	1,336,931	3,982,395	158,633	162,993	174,101	495,727	53,889.39	70,616.95	24,999.21	149,506	1,557,730	1,533,867	1,536,031	4,627,628
CLATSOP	464,732	405,461	393,023	1,263,215	54,803	50,826	51,181	156,811	31,488.28	13,971.75	2,400.00	47,860	551,023	470,259	446,604	1,467,886
COLUMBIA	433,358	417,740	382,368	1,233,465	51,103	52,365	49,794	153,263	206,798.97	241,267.37	12,954.16	461,021	691,260	711,373	445,115	1,847,748
COOS	503,801	476,440	436,024	1,416,265	59,411	59,724	56,781	175,915	13,827.78	199,952.32	88,071.96	301,852	577,039	736,116	580,877	1,894,033
CROOK	223,188	247,278	239,809	710,275	26,319	30,997	31,229	88,546		16,455.00	36,240.00	52,695	249,507	294,730	307,278	851,516
CURRY	346,006	283,737	234,571	864,314	40,803	35,568	30,547	106,917	46,146.00	102,279.00	39,535.20	187,960	432,955	421,583	304,653	1,159,191
DESCHUTES	1,075,065	1,016,589	1,054,730	3,146,384	126,776	127,434	137,351	391,562	43,182.00	23,195.96	10,052.15	76,430	1,245,023	1,167,219	1,202,134	3,614,376
DOUGLAS	651,452	640,338	625,008	1,916,798	76,822	80,269	81,391	238,483	11,430.30	3,103.80		14,534	739,704	723,711	706,399	2,169,815
GILLIAM	97,694	92,242	95,738	285,674	11,521	11,563	12,467	35,551	612.27			612	109,827	103,805	108,205	321,837
GRANT	126,460	122,317	121,816	370,593	14,913	15,333	15,863	46,109		8,323.50		8,324	141,373	145,974	137,680	425,026
HARNEY	179,597	164,120	164,086	507,803	21,179	20,573	21,368	63,120	5,000.00			5,000	205,776	184,693	185,454	575,923
HOOD RIVER	207,891	190,181	185,869	583,941	24,515	23,840	24,205	72,560	3,226.50	148.50		3,375	235,633	214,169	210,074	659,877
JACKSON	991,435	1,022,023	990,780	3,004,238	116,914	128,115	129,024	374,053	67,696.40	2,239.20	24,800.00	94,736	1,176,045	1,152,377	1,144,604	3,473,026
JEFFERSON	222,642	197,311	197,328	617,282	26,255	24,734	25,697	76,686	1,000.00			1,000	249,897	222,045	223,025	694,967
JOSEPHINE	482,427	435,921	440,252	1,358,600	56,890	54,645	57,331	168,866	9,531.00	53,985.00	11,711.00	75,227	548,848	544,551	509,294	1,602,693
KLAMATH	313,789	312,188	319,936	945,914	37,003	39,134	41,663	117,801	4,100.00	49,255.30	69,493.16	122,848	354,893	400,578	431,093	1,186,563
LAKE	167,683	147,670	159,468	474,820	19,774	18,511	20,767	59,052	37,691.71	31,032.93	83,416.20	152,141	225,148	197,214	263,650	686,013
LANE	1,650,065	1,606,594	1,558,505	4,815,164	194,583	201,393	202,955	598,932	52,879.27	126,932.76	77,740.00	257,552	1,897,528	1,934,920	1,839,200	5,671,648
LINCOLN	533,553	564,424	568,980	1,666,957	62,919	70,753	74,095	207,767			27,000.00	27,000	596,472	635,177	670,075	1,901,724
LINN	703,249	674,756	681,836	2,059,841	82,930	84,584	88,792	256,305	7,500.00			7,500	793,679	759,339	770,628	2,323,646
MALHEUR	225,486	211,680	200,336	637,502	26,590	26,535	26,089	79,214	8,500.00	14,367.00	2,340.00	25,207	260,576	252,582	228,764	741,923
MARION	1,704,152	1,446,655	1,405,330	4,556,137	200,961	181,344	183,008	565,314	19,843.02			19,843	1,924,956	1,628,000	1,588,338	5,141,293
MORROW	160,641	144,801	138,985	444,427	18,944	18,151	18,099	55,194	11,132.70	2,584.10		13,717	190,717	165,536	157,084	513,338
MULTNOMAH	3,490,564	3,241,467	3,272,070	10,004,100	411,623	406,332	426,103	1,244,058	69,843.97	110,063.64	33,291.96	213,200	3,972,030	3,757,863	3,731,464	11,461,357
POLK	355,316	345,980	343,324	1,044,621	41,900	43,370	44,709	129,980	4,400.00	88,886.00		93,286	401,617	478,236	388,033	1,267,887
SHERMAN	106,687	94,938	86,526	288,151	12,581	11,901	11,268	35,750		58,332.00	4,287.90	62,620	119,268	165,171	102,082	386,520
TILLAMOOK	489,636	439,657	426,623	1,355,917	57,740	55,113	55,557	168,410	15,767.00	17,125.00	22,078.00	54,970	563,143	511,895	504,258	1,579,296
UMATILLA	525,157	472,975	468,883	1,467,015	61,929	59,289	61,060	182,278	227,399.00	16,846.00	9,000.10	253,245	814,485	549,111	538,943	1,902,539
UNION	245,333	223,948	225,637	694,919	28,931	28,073	29,383	86,387	6,093.00			6,093	280,357	252,021	255,021	787,399
WALLOWA	96,347	97,231	99,705	293,283	11,362	12,188	12,984	36,534		12,000.00		12,000	107,708	121,419	112,689	341,817
WASCO	234,328	211,846	220,197	666,371	27,633	26,556	28,675	82,864				0	261,961	238,402	248,872	749,235
WASHINGTON	1,568,682	1,494,070	1,558,405	4,621,156	184,986	187,288	202,942	575,216	65,596.65	63,237.10	38,480.41	167,314	1,819,264	1,744,595	1,799,827	5,363,686
WHEELER	70,733	65,668	69,111	205,513	8,341	8,232	9,000	25,573	9,582.00	5,442.00		15,024	88,657	79,342	78,111	246,110
YAMHILL	471,366	450,775	424,559	1,346,700	55,586	56,507	55,288	167,380	16,570.00	62,140.00		78,710	543,522	569,422	479,847	1,592,790
TOTALS	**21,200,007**	**19,943,472**	**19,792,781**	**60,936,259**	**2,500,000**	**2,500,000**	**2,577,500**	**7,577,500**	**1,055,303**	**1,478,598**	**645,618**	**3,179,519**	**24,755,309**	**23,922,070**	**23,015,899**	**71,693,279**
				60,936,259				**7,577,500**				**3,179,519**				**71,693,279**
																71,693,279