

# 2007

## Report on the Health of the Oregon Property Tax System

Oregon Department of Revenue  
Property Tax Division



# Executive summary

A healthy property tax system is essential to providing communities and citizens with vital services. However, administering Oregon's property tax system is not easy. Measures 5 and 50—passed by voters in the 1990s—changed how property is assessed and property taxes are levied, and increased the challenge to administer the system efficiently and effectively. In 2005, the Oregon Department of Revenue tested the system's health with performance measures that evaluate how counties and the department manage the set up and collection of property taxes. This report updates the 2005 results, describing those

performance measures and what they say about the overall health of the property tax system.

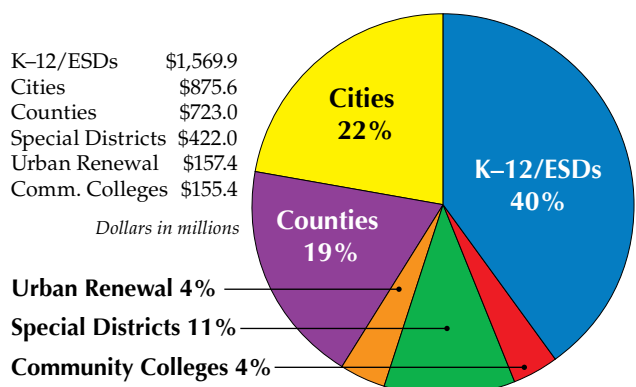
Overall, performance measures indicate increasing efficiency in county and Department of Revenue administration of the property tax system. Compared with prior test results, property appraisals are in danger of slipping below acceptable standards and are an item of concern. Positive trends include efficiency in administration and maintenance of property tax, timely property tax collections, and digital mapping.

## What's at stake

The property tax system is one of the most important sources of revenue for more than 1,200 local taxing districts in Oregon. It raised more than \$3.9 billion in fiscal year 2005–06. Property tax revenue supports essential government services including education, police and fire protection, and city and county administration. Stable property tax revenues decrease the demand on state general funds in providing funding for education. Unlike income taxes that are calculated by the taxpayer, property taxes rely on county assessment and taxation teams to value the property, calculate the tax, and collect it from property owners on behalf of all local taxing districts. The property tax bill is often the most visible link a taxpayer has to local government services.

erty tax system. Accurate assessors' maps, accurate real market values, and timely collections are necessary to maintain the system's health. Accurate maps ensure that all taxable properties are correctly recorded and that taxes are billed to the proper owners. Accurate real market values (RMV) ensure that taxes levied among property owners are fairly apportioned<sup>1</sup>. Timely collections ensure property taxes are paid to fund local government services to benefit all taxing district residents.

### Property Taxes Imposed By Type of District (Fiscal Year 2005-06)



Source: Oregon Property Tax Statistics, Fiscal Year 2005-06

### How the past affects the present

We cannot evaluate today's property tax system without understanding key events and their impact on the system over time.

#### Before Measure 5

Before Measure 5, Oregon had a levy-based property tax system in which each taxing district determined its own budget needs. Property owners paid a proportionate share of their government's budget based on the county assessors' estimate of the district's real market values. The county assessor determined each taxing district's property tax rate by dividing the total tax a district levied for that year by the total property value in the district. The sum of the taxing districts' rates was then multiplied by the real market value of each property to determine the total tax for that property. If a district's total real market value decreased, the tax rate was increased by the amount needed to fund the district's budgeted expenses. If a district's

### What makes a healthy property tax system?

Reliability, equity among taxpayers, and ease of compliance and administration characterize a healthy prop-

<sup>1</sup> Real market value (RMV) is defined as the amount in cash that could reasonably be expected to be paid by an informed buyer to an informed seller, each acting without compulsion in an arm's length transaction occurring as of the assessment date for the tax year (January 1).

total real market value increased, the tax rate needed to cover budgeted expenses decreased.

The cost of tax exemptions and special assessments were spread equally among all taxpayers in the district under this system.

### ***Effects of Measure 5***

Measure 5, approved by voters in 1990 and still in effect today, was the first substantial change to the property tax system since it began. Measure 5 introduced a limit of \$5 per \$1,000 of RMV on property tax rates for individual properties to fund education, and \$10 per \$1,000 of RMV to fund general government. This created a mix of levy-based and rate-based systems. This means that similar properties in the same area can be taxed differently, but each property will never be taxed more than the Measure 5 limits.

Under Measure 5, the rate limit sometimes causes a decrease in operating revenues for a district because some properties may not pay the full rate that is calculated from the levy amount a district establishes to meet operations.

In addition, the loss of taxable value from property tax exemptions and special assessments continues to shift tax obligation among property owners. While some property owners' tax burdens are reduced to zero, others can be increased (within the \$5 and \$10 limits) to make up the difference required to raise the levy amount. But, because the tax rate that can be applied to each property is capped, some property owners bear a larger proportion of the tax shift than others.

### ***Effects of Measure 50***

In 1997, voters passed Measure 50, the second and more complex property tax system change of the 1990s. The principal features of the measure were to "cut" and "cap." The "cut" rolled back a property's taxable value and reduced taxing district levies. In addition, most local government tax levies were replaced with permanent tax rates. Measure 50 introduced maximum assessed value (MAV), which acts as a "cap" on the growth of taxable (assessed) value for most property.<sup>2</sup> The system changed from one primarily based on taxes levied to meet current government budget needs, to one based on a permanent tax

2 Maximum assessed value (MAV) is a term defined by Measure 50, passed by the Oregon voters in 1997. For the 1997-98 tax year, MAV was the 1995-96 real market value (RMV) less 10 percent. For tax years after 1997-98, MAV is the greater of 103 percent of the property's assessed value from the prior year or 100 percent of the property's MAV from the prior year. MAV may be increased or recalculated if there are qualifying improvements made to the property, such as a major addition or new construction. When the real market value of a property falls below MAV, taxes are calculated using the RMV.

rate calculated on historic service levels unrelated to current service demands. This is the same rate-based system in place today.<sup>3</sup> Since each district's tax rate is fixed under the Measure 50 system, local governments lose revenue when property is either omitted from or undervalued on the tax roll, as opposed to pre-Measure 5 systems, which shifted the tax burden to other property owners.

Oregon's constitution requires that taxes be uniform among the same class of subjects within the boundaries of the district that levies the tax.<sup>4</sup> Ballot Measures 5 and 50 changed how Oregon's system operates by permanently setting many of the variables that impact a property tax system. This increases the importance of locating and accurately valuing new property, such as new construction, improvements to existing structures, and recently subdivided or partitioned land. It also challenges county assessors to efficiently administer the property tax program, both to distribute the tax burden fairly among taxpayers and to maximize tax collection. The health of each county's assessment and taxation team depends on the budget decisions county commissioners make each year.

## **Consequences of not maintaining a healthy system**

The health of a property tax system depends largely on accurate property values, which helps to ensure the fair distribution of the tax burden among taxpayers.

During the recession of the early 1980s, reduced tax revenues severely affected state and county budgets. Staff administering the property tax system at both the state and county level dropped by 31 percent. Appraisal staffing was especially hit hard, dropping by 37 percent during the same period.<sup>5</sup> Staff reductions made it difficult for counties to reappraise property and maintain accurate values, affecting their ability to fairly distribute the property tax burden. Staff reductions also contributed to inaccurate property inventories and assessment maps, which had similar adverse effects on the property tax system. Tax statements were mailed late or to the wrong taxpayer because of out-of-date records. Staff cuts severely limited taxpayers' access to tax and assessment information, increasing public frustration with govern-

3 See Appendix A for a more complete analysis of Measure 50's impact on the Oregon property tax system.

4 Article 1, Section 32 of Oregon Constitution.

5 *Disintegration of Oregon's Property Tax System* published by the department in March 1987.

ment services. Taxpayer appeals for a reduction in property value jumped almost 30 percent.<sup>6</sup>

The budget cuts also had a negative effect in other areas of the property tax system. Inaccurate property values affected the distribution of funding for schools and caused inequities between joint taxing districts.<sup>7</sup>

## Efforts to establish and maintain a healthy system

The disintegration of the property tax system during the 1980s fueled corrective action by the 1989 Oregon Legislature, which enacted House Bill 2338 to stem deterioration in the property tax system.<sup>8</sup> This legislation established an annual grant program to help pay for assessment and taxation costs. Funding for the grants comes from document recording fees and a portion of the interest from delinquent property taxes.

To receive the grant, each county must submit an application to the department that includes its annual budget for assessment and taxation expenditures as approved by the county governing body. The department reviews each application to determine if the county budget will provide the resources to adequately perform property assessment and taxation functions. If the county's proposed budget is not adequate, the department identifies the areas that must be improved. The county's share of the grant funds is withheld until these areas are addressed.

The department distributes grant funds to the counties through the County Assessment Function Funding Assistance (CAFFA) account. County assessment and taxation expenditures totaled \$84 million for the 2005-06 tax year. CAFFA grants fund approximately 25 percent (\$21.2 million in 2005-06) of the annual expenditures. An appropriation from the state general fund of an additional \$2.5 million per year rounds out state assistance to counties for assessment and taxation programs.<sup>9</sup>

Funding from the CAFFA grant and the general fund appropriation to counties helps pay for all essential assessment and taxation functions including administration, valuation, appeals, tax collection and distribution, cartography, and information processing support. Grant monies also help support the department's industrial and utility property appraisal responsibilities and other assessment and taxation system activities.

In addition to funding for assessment and taxation functions, House Bill 2338 added resources for the department to provide more education opportunities for state and county appraisal staff. This expansion boosted the accuracy of the mass appraisal system and property valuation in general.

In 1999, the Oregon Legislature recognized the continuing need for stability in assessment and taxation programs and adjusted grant funding through House Bill 2139.<sup>10</sup> This change, combined with administrative efficiencies, has sustained the health of the property tax system up to now. In addition, county governments are more aware that a healthy property tax system is essential to maintain budget resources for other county programs.

Improved technology and process re-engineering during the past 15 years have made assessment and taxation programs more efficient and allowed assessors to manage program growth. These changes have not eliminated the need for staff involved in these programs. Short-term staff reductions in assessment and taxation functions during tough economic times may seem like an attractive strategy to balance a tight budget. However, history has shown those decisions can backfire and lead to a decline in revenue. It is important that policy makers continue to recognize symptoms of stress to the system that, if left untreated, may again diminish the ability of local governments to raise and collect property tax revenues to fund essential services.

The property tax system is one of the most important sources of revenue for local taxing districts including schools and community colleges; fire and ambulance services; parks and recreation; port, road, and cemetery districts; as well as city and county government services, such as law enforcement, courts, juvenile and adult corrections governance, and planning. Yet, only about 1.5 percent of the property taxes levied

6 Appeals to the Boards of Equalization increased from 11,393 to 16,197 between 1980 and 1986, *ibid*.

7 A joint taxing district is a district that overlaps another district(s). For example, an education service district (ESD) may provide services to three cities in an area, with several different school districts within each city's boundaries. Depending on the combined tax rate that applies to a property in each of the smaller districts, a property in one city may have a different rate than a similar property in another city within the ESD. If the combined rate of one property exceeds the Measure 5 limit, it will be reduced or compressed by reducing all tax rates proportionately.

8 HB 2338 (1989) enacted ORS 294.175 through 294.187.

9 The general fund appropriation to counties was established by the legislature in 1999 to help stabilize assessment and taxation funding. In 2005, the Legislature authorized moving the appropriation to counties into the department's budget and appropriated approximately \$5 million from the state general

fund for the 2005-07 biennium. The Governor's recommended 2007-09 budget for the department includes a slight increase to this appropriation to account for inflation.

10 HB 2139 (1999) expanded the document base for recording fees, while reducing the fee. It also established funding for the statewide mapping program known as ORMAP.

each year funds the assessment and collection activities of those taxes.<sup>11</sup>

## Funding challenges

Even with the corrective steps described above, challenges to the property tax system remain largely the same today as they were in the 1980s. A slumping Oregon economy in the early- to mid-2000s again weakened the counties' general funds. While the real market value of housing continues to grow in many areas, Measure 50 constraints prohibit much of that growth from being reflected in the assessed value used to calculate property taxes. The demand for government services is again outpacing the growth in property tax revenues. This imbalance makes it even more important to fund programs, such as assessment and taxation, which bring dollars into county general funds and other local governments.

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<sup>11</sup> The total assessment and taxation expenditures by all counties and included in the CAFFA grant applications submitted to the department for the 2005-06 fiscal year was \$84,043,526. CAFFA and special payments to counties for the same period was \$23,700,007. Net expenditures paid by property taxes levied by counties for assessment and taxation were \$60,343,519 or 1.54 percent of the \$3.9 billion of property taxes levied in 2005-06.

The loss of federal forest funding is the latest challenge in maintaining adequate county budgets. Revenues from timber harvest on federal lands have been shared with counties nearly as long as the Oregon forestlands have been under federal control. When timber harvests declined, Congress subsidized the lost revenue. In total, federal funds provide nearly \$200 million per year to Oregon counties. As of the date of this publication, the appropriation of these funds has expired with no new funding set to take its place.

Counties that had significant federal forest revenues received lower permanent tax rates than counties that did not have similar non-tax revenue streams when permanent tax rates were set under Measure 50. The permanent property tax rate for Oregon counties averages \$2.57 per \$1,000 of assessed property value. The rate is much lower in counties most reliant on federal forest revenue. Josephine County, one of the counties that has depended on federal forest funding, has a permanent rate of just 58.7 cents per \$1,000 of assessed value. Similar to Josephine, many other Oregon counties will need more revenue than can be raised under the current property tax system to continue essential government services including tax assessment and collection. See Appendix E for more detail on this issue.

## Where we are today

The Department of Revenue developed performance measures to assess how well the department and its 36 county partners maintain the property tax system. These are statewide measures that do not show the health of any individual county system. Additionally, the data only measures performance on previously identified properties, but cannot measure performance on omitted or undiscovered properties. Appendix D includes the detailed performance measures.

### Administrative efficiency

A healthy property tax system continually supports an increasing volume of accounts per dollar of administration cost by using technology and other innovations to manage increased workload. Performance measure 1 tracks the total number of property tax accounts processed for each \$1,000 spent (adjusted for inflation). This measure estimates how efficiently county assessors and the department administer the system.

As population increases, so does the number of property tax accounts. Each new account must be identi-

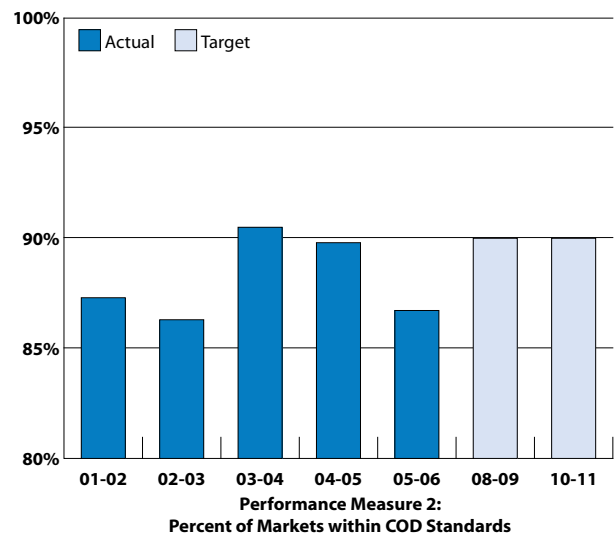
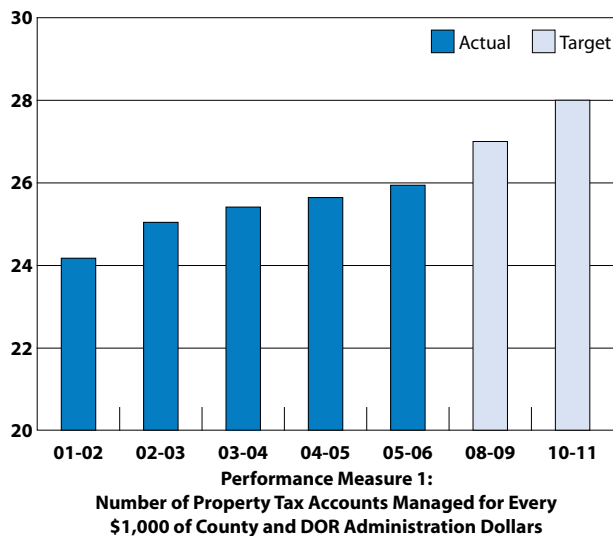
fied, mapped, valued, and billed before taxes may be collected. The value of each property account must then be updated annually before new statements can be sent to the taxpayer for tax collection. As the number of accounts increases, so does the possibility of taxpayer appeals, omitted property proceedings, subdivisions, segregations, consolidations, special assessments, and other related activities. As a result, additional resources are needed to process the additional work.

### *How Oregon's tax system measures up*

Counties and the department have administered the system during this period in an increasingly cost-effective manner. Data through fiscal year 2005–06 reveals a steady increase in statewide property tax accounts, but a gradual decrease in the inflation-adjusted costs to administer them.

### Property appraisal

Property valuation is a large part of the overall property tax system. A healthy property tax system is consistently effective in determining the value to be placed on



the property tax roll by using effective valuation software, information from annual ratio studies to identify areas that need reappraisal, and innovations for mass appraisal, such as automated valuation models.<sup>12</sup>

A healthy property tax system also has a high percentage of markets that meet established coefficient of dispersion (COD) standards. This is accomplished by maintaining accurate and up-to-date property inventories, effective ratio trending and reappraisal programs, and by using current cost factors.

### ***Effective, uniform appraisal***

Appraisal uniformity implies equalization of the tax burden. When a market area has a COD that meets the standards, it shows that the ratios calculated from market data the assessor collects each year reasonably reflect the market(s) in which various properties are exchanged or sold. It also means that when the assessor calculates the values on the annual assessment roll using a mass appraisal technique, the majority of properties will be adjusted to match the market. Performance measure 2 analyzes the counties' effectiveness in achieving appraisal uniformity. It tracks the statewide percentage of county-defined market areas that meet the COD standards as defined by Oregon Administrative Rule 150-308.234.<sup>13</sup>

### ***How Oregon's tax system measures up***

As of June 30, 2006, slightly less than 90 percent of the market areas have CODs that meet the standards. The decline of appraisal uniformity impairs a county's valuation data when the COD for a market area falls below standards. This means the RMV on the property tax roll may not accurately reflect the market in that area and requires reappraisal. When budget constraints result in reductions in appraisal staff, a county may be unable to direct resources towards reappraisal causing valuation inequities to continue growing. The downward trend in the percentage of market areas that meet the COD standards indicates a need for greater resources devoted to reappraisal. Individual county programs should be closely monitored to ensure that market area CODs reach and remain within the accepted range.

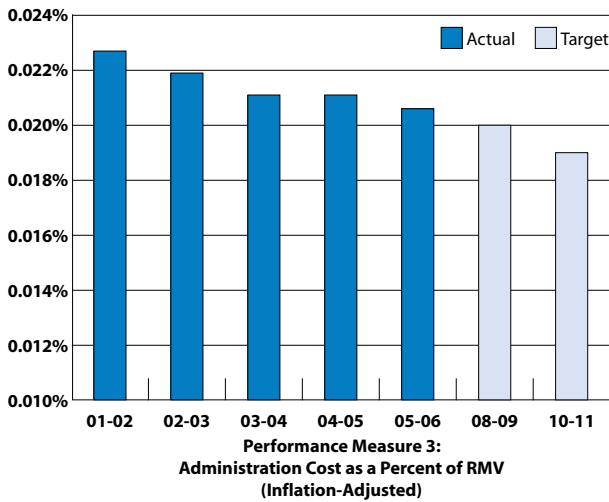
### ***Efficient appraisal***

As the number of property tax accounts grows, so does the need for more property appraisals. Because Measure 50 eliminated the requirement for periodic reappraisal of properties and led to budget cutbacks to match reduced revenue, assessors have built more efficient mass appraisal systems as an alternative to physical reappraisals. However, the valuation workload increases as the number of property accounts increase, as does the need to value new property, new improvements to property, and subdivided or partitioned property.

Performance measure 3 demonstrates how efficiently counties and the department accurately determine real market value of all property in Oregon. It compares the total administrative cost to the total real market value on the tax rolls statewide. Administration costs and real market value are adjusted to filter out increases due to inflation.

12 Mass appraisal is a method of appraising a large number of properties at one time by adopting standard techniques, giving due consideration to the valuation process so that uniformity and equity of values can be achieved among all properties. Counties can recalculate real market value of groups of property annually by studying current conditions and adjusting tables and factors used to establish values. This is an effective alternative to traditional physical reappraisal when paired with scaled down and focused reappraisal activities.

13 See Appendix C for more details about CODs in the Oregon property tax system.



**How Oregon’s tax system measures up**

Inflation-adjusted real market value has steadily increased, while inflation-adjusted administration costs have dropped slightly from their initial high in 2001-02. Performance measure 3 demonstrates that administration costs as a percentage of real market value has steadily decreased. This indicates increasing efficiency in the valuation of property

**Tax collection**

A healthy system collects a high percentage of the total property tax obligation by providing taxpayers with convenient payment options and initiating effective processes and procedures for dealing with delinquent accounts. Measurements of tax collection focus primarily on counties, because department property tax collections are limited.

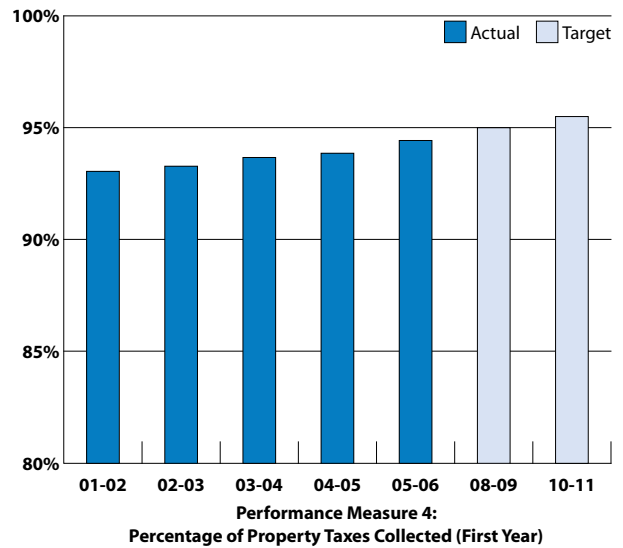
**Effective collections**

Local governments rely on property tax dollars to meet their funding needs. Therefore, timely collection of taxes is critical to a healthy system. Most tax revenues are spent in the first year, making a high volume of voluntary payment in the first year very important.

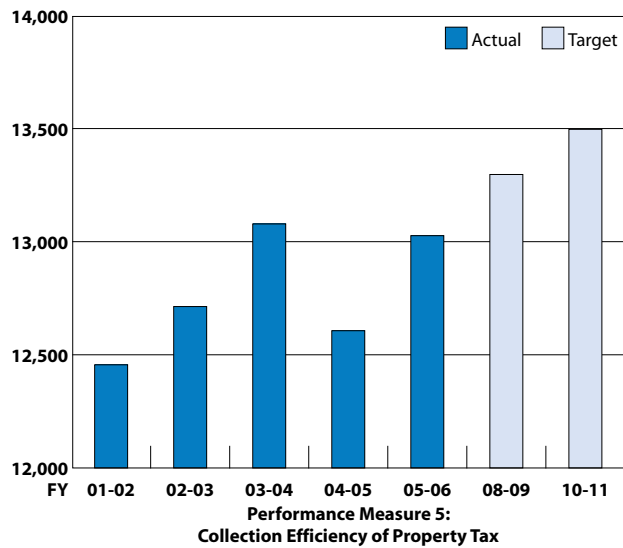
Performance measure 4 tracks the annual percent of actual collections of the total property tax obligation. The measure shows the percentage of revenues collected in the first year after property tax statements are distributed.

**Efficient collections**

Healthy property tax systems use new technology and other innovations to administer increasing workloads. Oregon counties encounter ongoing challenges in collecting taxes generated from an increasing number of accounts with limited resources. Perform-



mance measure 5 evaluates how efficiently property tax obligations are collected by comparing the number of statewide accounts to the full-time employee (FTE) dedicated to property tax collection activities.



**How Oregon’s tax system measures up**

Counties are effectively managing property tax collections. A high percentage of property tax obligations are made through voluntary payments within the first year. Counties also efficiently manage an increasing number of accounts with a constant level of resource.

**Accurate identification of property**

A healthy property tax system has a high percentage of accurate assessor maps, timely ownership and property boundary changes, and administrators that



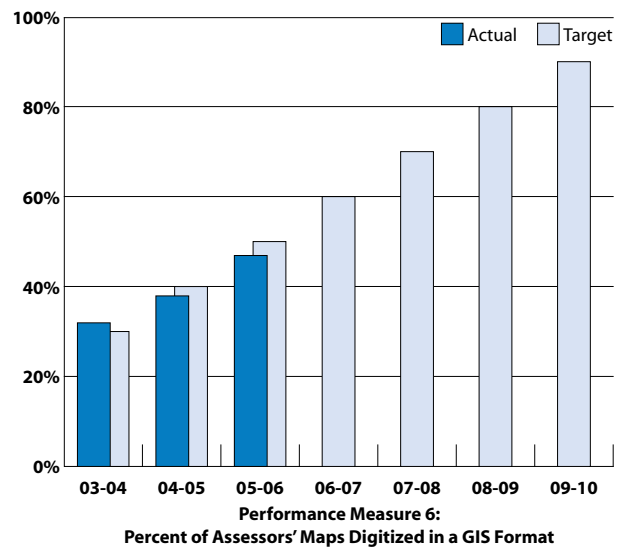
use new techniques and technologies for map accuracy.

Performance measure 6 tracks the percent of statewide assessor maps that have been digitized to the Oregon Map (ORMAP) standard. This measures how accurately the counties and the department identify property to be valued, and who is responsible for the taxes.

The move from paper to computer-based mapping will improve administration of the property tax system by more accurately identifying properties to be taxed. It will also support a variety of geographic information system (GIS) applications, giving public and private organizations better access to geographic information.

### ***How Oregon's tax system measures up***

Oregon has a solid beginning on a new digital property tax map, but significant effort remains to complete the task. The ORMAP Advisory Committee revised project goals in 2006. As a result, the methodology for determining project completion changed after the



performance measure was published in 2005. Changes in this measure reflect both the youth and the magnitude of the ORMAP project. County business plans anticipate steady progress toward completion.

# Summary and conclusions

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These performance measures show that Oregon's property tax system is generally healthy. Critical elements such as timely collections and accurate mapping are in good shape and have a promising future. The counties and the department have become more efficient in administering the system. However, it appears that more areas are slipping outside statewide standards for valuing property at real market value. Appraisal resources may be near the point where efficiencies gained through technology cannot compensate for administrative decisions (such as reduced staffing) without impairing performance. Oregon counties and the department must continue to focus resources on the accurate appraisal of property to keep this function within an acceptable range.

There are limitations to statewide performance measures. Measures based on statewide data do not show the health of any individual county system. The department must continue monitoring individual county performance to ensure that all 36 counties meet the constitutional requirements of equity and uniformity in assessing property taxes.

Measures can only evaluate performance on known properties. Performance on omitted or undiscovered property cannot be measured. Evidence suggests that some counties' funding for assessment and taxation is not sufficient to capture all the tax dollars permitted under law by maintaining active reappraisal and omitted property programs.<sup>14</sup>

Oregon's property tax system is challenging to administer, and Measures 5 and 50 increased its complexity. Short-term staff reductions in assessment and taxation functions during tough economic times may balance a tight budget at the expense of capturing

needed tax revenue. History has shown such reductions have long-lasting consequences that reduce the ability of the property tax system to recognize and collect the revenue—already authorized by taxpayers—to adequately fund services such as public safety and education.

While evidence shows that valuable work continues to maintain the system's health, the reliability of the grant-funding stream that supplements county assessment and taxation budgets is uncertain. The CAFFA and ORMAP grants rely heavily on fees from recorded documents related to the transfer of property. Therefore, an increase in mortgage interest rates will influence the number of documents recorded and the fees collected. When interest rates increase, fewer documents are likely to be recorded, leading to a decline in funds deposited into CAFFA and ORMAP accounts.

Counties in rural Oregon are facing a budget crisis arising from the loss of federal forest revenue. Much of rural Oregon may lose or curtail essential government services such as law enforcement, disaster relief, homeland security, juvenile services, health services, district attorney, county clerk, and tax assessment and collection as a result of the crisis. Loss of those services, in turn, will impact other Oregon communities.

A healthy property tax system directly impacts the revenue available for local government programs and schools. To remain healthy, county governing bodies must understand the importance of assessment and taxation systems in providing communities and citizens with the services property tax dollars support. These systems must be supported with sufficient technology and trained and dedicated staff.

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<sup>14</sup> 2004 *Assessment and Taxation Funding Study*, pp. 6-7, published by the department in December 2004.

## Appendix A: The impact of Measure 50

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Measure 50 changed the administration of the property tax system. Some of the more significant changes are:

- **Tax rates set by formula, not budgetary requirements**  
Measure 50 set a permanent rate for each taxing district based on historic tax rates that existed before Measure 50 was enacted. Rural counties, schools, and road districts that receive federal forest revenue received lower permanent tax rates than those counties that did not have similar non-tax revenue streams. The constitution makes no provision to change a local government's permanent property tax rate even if funding streams, such as federal forest revenue, fail. See Appendix E for more information on the loss of federal forest revenue.
- **Reappraisal activity shifted, revenue reduced**  
Measure 50 eliminated the requirement that counties reappraise properties every six years. It also cut county tax revenues, resulting in a reduction of assessment and taxation staff. Measure 50 did not eliminate the need for periodic reappraisal and maintenance as explained in Appendix B. However, most county appraisal resources shifted from reappraisal to valuing all new construction and capturing "exception value."<sup>15</sup>
- **New technology and training needs emerged**  
Measure 50 introduced complexity to the property tax system. Counties had to purchase hardware and software to support analytical requirements. Because the Oregon system was unique among the 50 states, less expensive "off-the-shelf" software could not be used without significant and expensive modifications. Statewide property tax procedures had to be developed and tested and more time was spent educating staff. Finally, counties had to find and adopt alternative methods for appraising property, particularly through automated valuation models.<sup>16</sup>
- **Appraisal data quality declined**  
The quality of data used for ratio studies has declined on average statewide.<sup>17</sup> Counties use ratio studies to:
  - monitor appraisal performance;
  - determine the need for a general revaluation;

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<sup>15</sup> See Appendix B for definition.

<sup>16</sup> Automated valuation models use tabulated, computer-aided formats to replicate real market value levels for applicable classes of real property. Market values may be recalculated annually by studying current conditions and adjusting tables and factors used to establish values. This is a viable alternative to traditional reappraisal when used in conjunction with scaled-down and focused reappraisal activities.

<sup>17</sup> Ratio studies evaluate the relationship of the real market value of property as reflected on the prior year's assessment roll with the value of property from sales evidence.

- establish priorities for revaluation of selected groups of properties;
- identify potential problems with appraisal procedures;
- conduct market analyses; and
- adjust appraised values between revaluations.

A ratio conclusion is determined for each market area in the county.<sup>18</sup> A ratio study relies upon accurate data to achieve a reliable conclusion to adjust property values. Properties may be remodeled, renovated, enlarged, or otherwise changed between the time of the assessor's appraisal and the sale date of the property. The elimination of the six-year reappraisal cycle made it difficult for the assessor to discover some of these changes. If the real market value on the roll for a property included in the study is not based on an accurate description of the property, the ratio for that sales transaction will also be inaccurate.

- **Appeals are more complex**  
Measure 50 resulted in a significant decline in the number of appeals filed with local boards of property tax appeals, but the issues in the appeals are much more complicated. Board members must now understand terms like maximum assessed value (MAV) and exception value to correctly review the values on the roll. The boards must also include these values in their orders.
- **Administration is more complex**  
New classes of property values and value limitations complicated the calculation of values and taxes, which means additional cost for legal advice and staff expertise. This complexity also increases the time that county staff must spend answering questions from taxpayers.
- **Reappraisals bring more tax revenue**  
Even though Measure 50 eliminated the six-year reappraisal cycle, counties that still maintain a regular reappraisal program have realized significant new tax revenue by finding exception value and correcting inaccurate data.<sup>19</sup> This effect varies by county and depends on the county's ability to obtain permits, perform field inspections, and analyze data.

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<sup>18</sup> The ratio conclusion for each market area is the selected central tendency from an array that includes a comparison of the real market value on the prior year's assessment roll to the sales price of properties.

<sup>19</sup> *2004 Assessment and Taxation Funding Study*, op. cit., p. 7, describes the reappraisal experience of several counties that led to the discovery of millions of dollars of new property value that resulted in new tax revenue.

## Appendix B: Why accurate real market values are critical

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Even though taxes are not assessed on the real market value (RMV) of property in the post-Measure 50 property tax system, accurate RMV continues to be critical to a healthy system. Maintaining accurate real market values on the roll is essential for the following reasons:

- **Determines taxing district revenue**

There are two limitations placed on a district's authority to levy taxes. The Measure 5 limitation is calculated using the real market value of property within the district and a maximum tax rate of \$5 per \$1,000 for an education district or \$10 per \$1,000 for all other districts. Under Measure 50, taxes are levied on the assessed value of a property, which is the lesser of the real market value or the maximum assessed value. The real market value and the assessed value are often different for a given property. The assessor must calculate the Measure 5 limit and compare it to the total tax imposed by all taxing districts in that category to determine the amount of tax allowed under the limit.

- **Impacts taxable value**

When a property's real market value falls below the Measure 50 value limitation (maximum assessed value, or MAV), the assessed value shifts to equal RMV instead of MAV. An accurate RMV directly impacts taxes, because it is an integral part of the tax calculation.

- **Determines taxable assessed value**

The following qualify as Measure 50 exception value: new property; significant improvements to existing property; changes to property, such as partitions, subdivisions, and rezoning (with use consistent with the rezoning); disqualification of an exemption or special assessment; and recognition of omitted property. Accurate RMV determines the contribution to taxable assessed value.

- **Determines changed property ratio**

RMV is used to determine the changed property ratio (CPR) required by ORS 308.149 that is used to calculate the MAV of Measure 50 exception value.

The CPR is the ratio of average maximum assessed value to average real market value for the same property class in a county.

- **Determines correct value adjustment**

Ratios for evaluating assessment levels and uniformity depend on accurate property characteristics and the uniform application of appraisal standards. Inaccurate real market values create a lack of appraisal uniformity and progressive or regressive assessments on individual properties. Outdated appraisals, and the real market values based on these appraisals, make it difficult for the assessor to determine accurate ratio conclusions and adjustment factors (indexes). It also causes problems for programs that use automated valuation models. If the assessor applies an incorrect index to property, the result will be an inaccurate value. If the value of a property is incorrect one year, it will also be incorrect the following year if a subsequent reappraisal does not correct the value. When the assessor uses an automated valuation method program to value the property, a new value estimate for the improvements is based on the property characteristics and appraisal standards (tables) currently in the valuation system. If the property characteristics and valuation tables are incorrect, the new value estimate also will be incorrect.

- **Reduces appeals**

Because RMV is a measure of value many taxpayers use to compare to properties around them, accurate real market values on the tax roll should help reduce the number of appeals.

- **Ensures accurate financing of bonds**

A taxing district's limit for bonded debt is based on the total real market value in the district, not the value on which taxes are assessed.

- **Used by private sector**

The private sector relies on accurate real market property values in underwriting insurance, considering loans backed by real property, accounting, and resolving property settlements.

## Appendix C: Coefficient of dispersion explanation

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A coefficient of dispersion (COD) is a statistical tool that measures the average percentage deviation of appraisal ratios from the median ratio in a market area. A COD that falls within the acceptable range for a particular property type tells us that the appraised values in the target area are clustering around the median ratio within the tolerance level set as the standard. In layman's terms, this means that the appraisals are generally uniform, which results in an equitably distributed tax burden. It also means that when the assessor adjusts the values on the annual assessment roll, the majority of properties will be adjusted to their real market value.

Calculating a COD requires six steps:

1. Subtract the median ratio for the sample from each individual ratio making up the sample. The result is the deviation for each ratio.
2. Convert each deviation to its absolute value.
3. Total the absolute values of each deviation.
4. Divide the total deviation by the number of properties in the sample to get the average absolute deviation.
5. Divide the average absolute deviation by the median ratio.
6. Multiply the result by 100.

Below are the COD standards for Oregon as listed in OAR 150-308.234:

Type of Property	Maximum COD
Vacant Land	20
Manufactured Structures	25
Urban Residential	
Homogeneous	10
Not homogeneous	15
Rural Improved	20
Apartments	12
Other Income	
Large Urban	15
Smaller Rural	20

## Appendix D: Performance measures

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The Department of Revenue developed the following performance measures to assess how well the department and county partners maintain the system. These are statewide measures that do not show the health of any individual county system. Additionally, the data only measures performance on previously identified properties, but cannot measure performance on omitted or undiscovered properties. Each measure is described on the following pages.

Outcome Measure	Critical Element	Type of Measure
Administrative efficiency of the property tax system	All	Composite
Percent of real estate markets within COD standards	Accurate RMV	Effectiveness
Administration cost as a percent of RMV	Accurate RMV	Efficiency
Percentage of property taxes collected	Timely Collections	Effectiveness
Collection efficiency of property tax	Timely Collections	Efficiency
Percent of assessors' maps digitized	Accurate Maps	Effectiveness

# 1. Administrative Efficiency of the Property Tax System

Fiscal Year	County Admin. Costs	DOR Admin. Costs	Combined County and DOR Admin. Costs	Adjusted* Combined County & DOR Admin. Costs Base Year 2000	Statewide All Property Tax Accounts	Number of Accounts per \$1000 of Adjusted* Combined DOR/ Cnty Administration Costs
2001-02	\$68,910,435	\$12,155,589	\$81,066,024	\$77,158,707	1,865,388	24.17
2002-03	\$71,548,366	\$11,368,236	\$82,916,602	\$75,969,913	1,902,231	25.04
2003-04	\$75,042,674	\$11,195,488	\$86,238,162	\$76,034,352	1,931,694	25.41
2004-05	\$79,579,498	\$11,611,996	\$91,191,494	\$75,818,529	1,943,902	25.64
2005-06	\$84,043,526	\$11,771,343	\$95,814,869	\$75,388,386	1,955,580	25.94

\*Adjusted = State and local government expenditures and gross investment price index.

## What does the performance measure demonstrate about the critical element?

The overall cost efficiency of administering the property tax system.

## What does the data reveal?

The property tax system workload has gradually increased during the past five years yet funding for the system has remained relatively flat. The counties and the department have administered both the system and the surge in workload in an increasingly cost-effective manner.

## What are examples of system activities related to the measure?

All activities related to assessment and taxation administration including collections, cartography, ap-

praisal, valuation, and data gathering activities.

## What needs to be done as a result of this analysis?

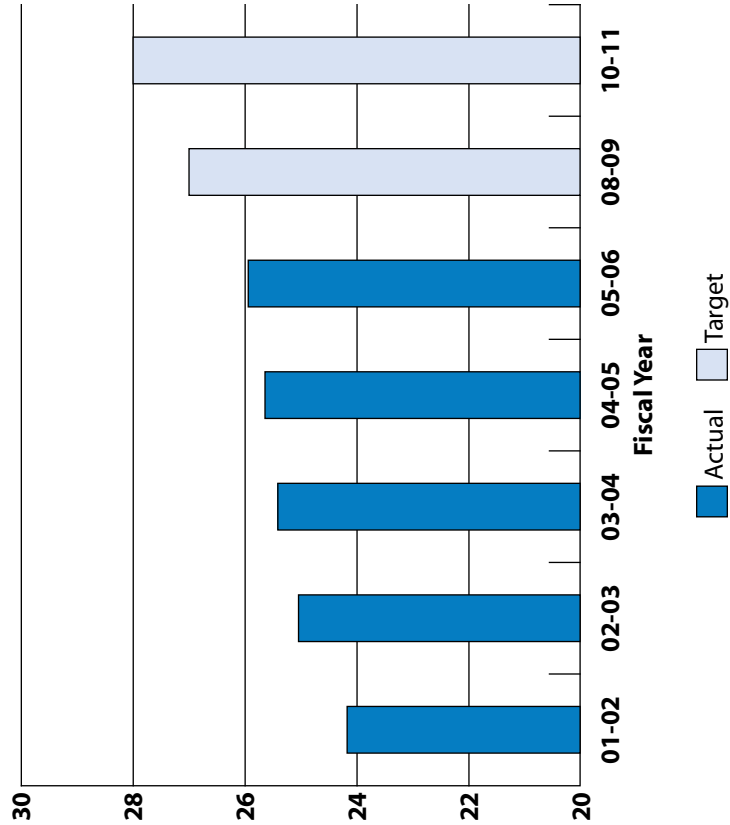
The counties and the department must continue to explore new methods of administration that will lead to increased efficiencies in the system.

## What is the data source?

- Department of Revenue Budget Reports.
- County Submitted Annual Reports (SAL<sup>1</sup> and CAFFA<sup>2</sup>).
- Bureau of Economic Analysis.

1 Summary of Assessments and Levies Report  
2 County Assessment Function Funding Assistance grant requests.

Number of Property Tax Accounts Managed for Every \$1,000 of County and DOR Administration Dollars



# 2. Percent of Real Estate Markets within Coefficient of Dispersion Standards

Fiscal Year	Percent State RMV in Standard
2001-02	87.3%
2002-03	86.3%
2003-04	90.5%

Fiscal Year	Percent State RMV in Standard
2004-05	89.82%
2005-06	86.72%

Note: Centrally Assessed accounts are not included in this measure

### What does the performance measure demonstrate about the critical element?

This performance measure demonstrates the level of appraisal uniformity. Coefficient of dispersion<sup>1</sup> (COD) accuracy that is above the 90th-percentile range is an indication that reasonably reflect roll values in the market.

### What does the data reveal?

The data reflects real property valuations are in danger of slipping to unacceptable levels, indicating a need for reappraisal. What the data does not reveal are specific areas out of compliance, which is defined by an area outside of standards for two consecutive years.

### What are examples of system activities related to the measure?

The primary example of system activity related to this measure would be the property valuation

efforts undertaken to maintain the statutory obligation for determining accurate real market values<sup>2</sup> (RMV).

### What needs to be done as a result of this analysis?

This analysis indicates that real market values in some areas are at the low end of the “acceptable range.” Markets with CODs below standard in consecutive years merit reappraisal activity to bring the market back into standard.

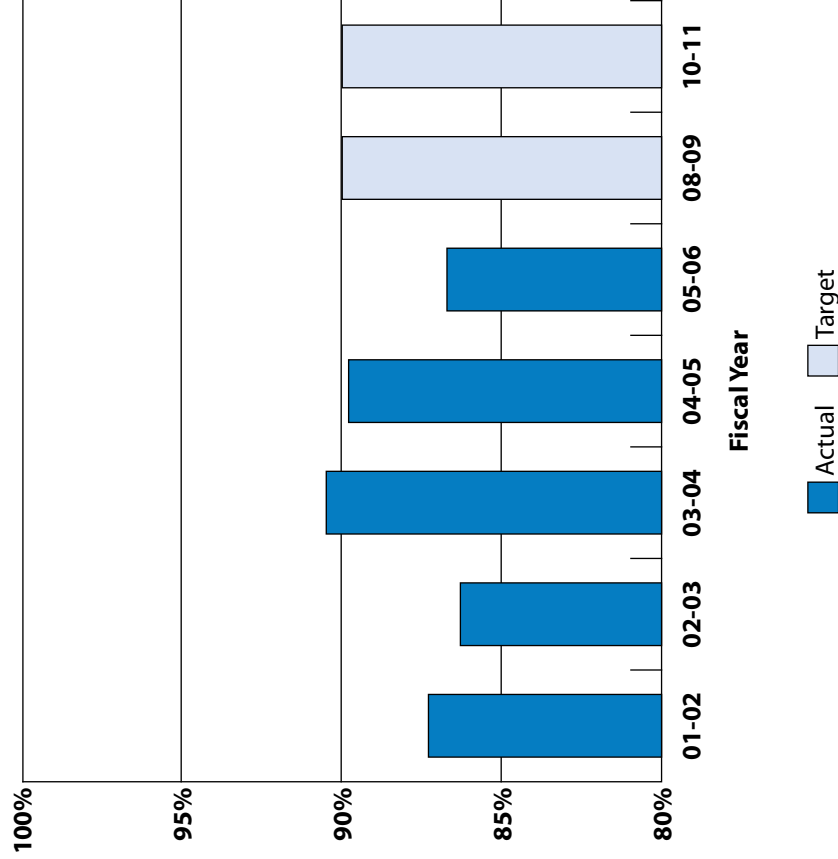
### What is the data source?

County ratio reports.

1- COD facilitates comparison of the deviation between different size medians.

2- RMV is the amount that could reasonable be expected to be paid by an informed buyer to an informed seller in an “arms-length” transaction.

### Percent of Markets within COD Standards





# 3. Administration Cost as a Percent of Real Market Value

Fiscal Year	Real Market Value (RMV) of Accounts	RMV Adjusted for Inflation (base year 2000)	Selected County and DOR Administrative Costs*	Adjusted** Administration Cost (base year 2000)	Administration Cost as a Percent of RMV (inflation adjusted)
2001-02	\$274,041,929,000	\$261,826,087,276	\$62,534,212	\$59,520,113	0.0227%
2002-03	\$287,259,951,000	\$266,127,582,393	\$63,567,267	\$58,241,650	0.0219%
2003-04	\$305,351,383,000	\$271,811,023,353	\$65,073,523	\$57,373,940	0.0211%
2004-05	\$329,989,575,000	\$276,095,949,798	\$70,119,313	\$58,298,674	0.0211%
2005-06	\$362,810,159,000	\$282,762,157,821	\$73,855,440	\$58,110,421	0.0206%

\* ALL Administrative Costs excluding Collection and Cartography Costs

\*\* Adjusted = State and local government expenditures and gross investment price index

## What does the performance measure demonstrate about the critical element?

The efficiency of the counties and the department in determining RMV.

## What does the data reveal?

The inflation adjusted administration costs as a percentage of RMV have remained constant. Counties and the department are managing administrative resources efficiently.

## What are examples of system activities related to the measure?

Completion of annual ratio studies, appraisal and reappraisal of property, and accurate tracking of property sales are a few of the activities related to this measure.

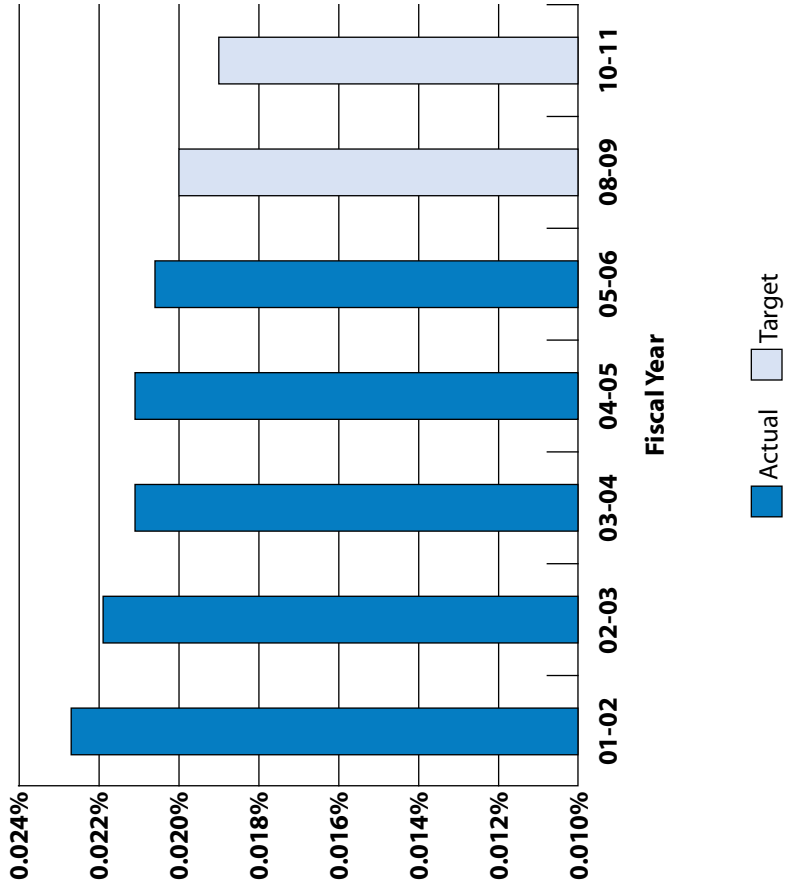
## What needs to be done as a result of this analysis?

The department and the counties should continue to explore and implement new automation opportunities and other methods of increasing efficiency.

## What is the data source?

- County SAL Reports.
- County CAFFA Grant Document.
- Department of Revenue Cost Allocation System (CAS).
- Oregon Property Tax Statistics.
- Bureau of Economic Analysis.

## Administration Cost as a Percent of RMV (Inflation-Adjusted)



# 4. Percentage of Property Taxes Collected

Fiscal Year	Amount to Collect	Collected	Percentage Collected	Fiscal Year	Amount to Collect	Collected	Percentage Collected
2001-02	\$3,296,480,313	\$3,067,255,649	93.05%	2004-05	\$3,811,391,859	\$3,577,389,314	93.86%
2002-03	\$3,463,952,485	\$3,231,299,275	93.28%	2005-06	\$3,950,367,265	\$3,730,493,282	94.43%
2003-04	\$3,662,894,333	\$3,431,118,824	93.67%				

### What does the performance measure demonstrate about the critical element?

The effectiveness of county staff in collecting current and past due property taxes.

### What does the data reveal?

The data reveal that most people voluntarily meet their property tax obligations as requested by the county.

### What are examples of system activities related to the measure?

Setting up and tracking taxpayer accounts, processing tax payments,

and collection and management of delinquent accounts.

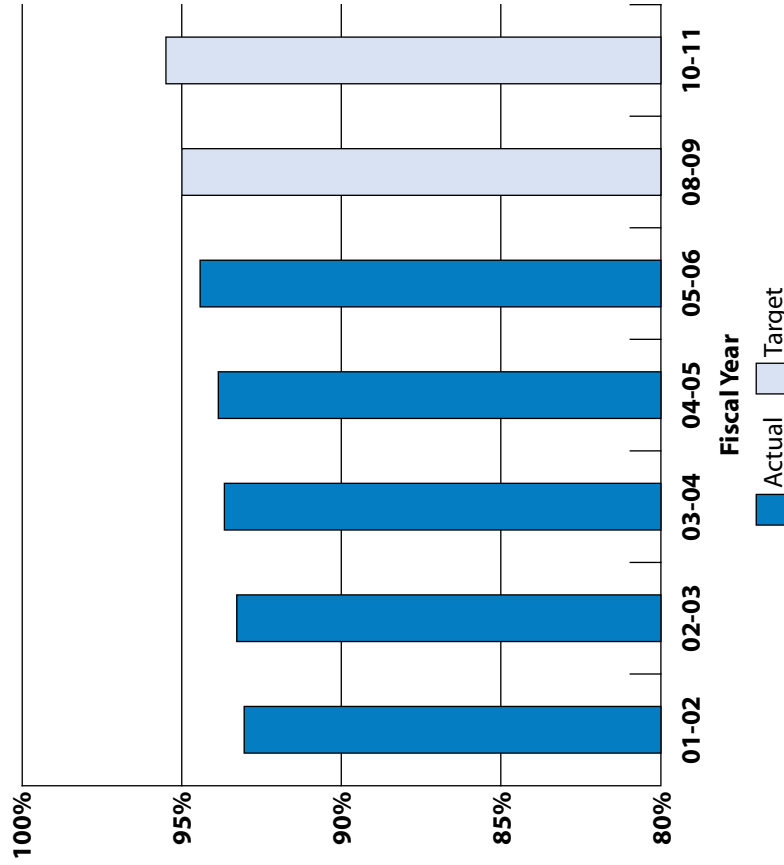
### What needs to be done as a result of this analysis?

Counties must continue to maintain and support effective collection processes for current and past due property taxes.

### What is the data source?

“Oregon Property Tax Statistics.”

### Percentage of Taxes Collected (First Year)



# 5. Collection Efficiency of Property Tax

Fiscal Year	Statewide All Property Tax Accounts	Total County and DOR Collections FTE	Account per FTE
2001-02	1,865,388	149.75	12,457
2002-03	1,902,231	149.60	12,715
2003-04	1,931,694	147.67	13,081
2004-05	1,943,902	154.18	12,608
2005-06	1,955,580	150.10	13,029

\*Actual collections without adding discounts.

## What does the performance measure demonstrate about the critical element?

The efficiency of county and department property tax collection staff in carrying out their collection duties.

## What does the data reveal?

During the past five years, the full-time equivalent (FTE) dedicated to collection activities has remained relatively the same, while the number of statewide accounts has steadily increased. This performance measure demonstrates that the counties and the department have been carrying out their collection activities with increasing efficiency.

## What are examples of system activities related to the measure?

Sending annual tax statements to property owners, processing tax

payments, and collection and management of delinquent accounts.

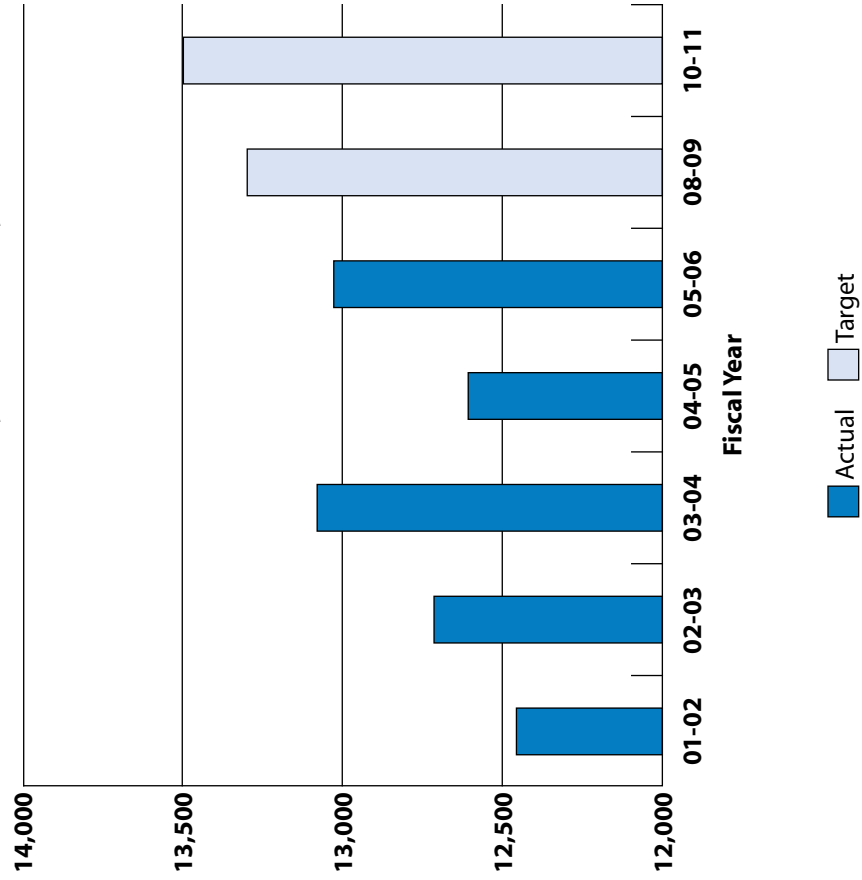
## What needs to be done as a result of this analysis?

The department and counties should continue to explore and implement new automation opportunities and other methods of increasing efficiency.

## What is the data source?

- Annual Collection Report submitted by counties to the department.
- County submitted CAFFA Grant application Document.
- Department of Revenue Position Inventory Control System.

## Collection Efficiency of Property Tax



# 6. Percent of Assessors' Maps Digitized in a GIS Format

Fiscal Year	Actual	Target
2003-04	32%	30%
2004-05	38%	40%
2005-06*	47%	50%
2006-07	—	60%

\* Unaudited estimate

### What does the performance measure demonstrate about the critical element?

The effectiveness of the counties and the Department of Revenue in creating accurate cadastral maps. Statewide digitized maps that can be formatted into geographic information systems (GIS) allow stakeholders, employees, and other partners to have easy access to accurate property tax map information. Specifically, counties can use this data when valuing property accounts to achieve equity in the ad valorem property tax system.

### What does the data reveal?

The ORMAP Advisory Committee revised the goals for the project at its October 2006 meeting. The new targets are shown in this graph. The actual values are based on county business plans for the ORMAP project and subject to change until performance measures are finalized and tools to measure their progress are developed. The changes in the targets reflect the

youth and magnitude of the project. An automated tool for measuring progress is being developed. When implemented in spring 2007, it will standardize the methodology used to report progress to goals set by the ORMAP Advisory Committee.

### What are examples of system activities related to the measure?

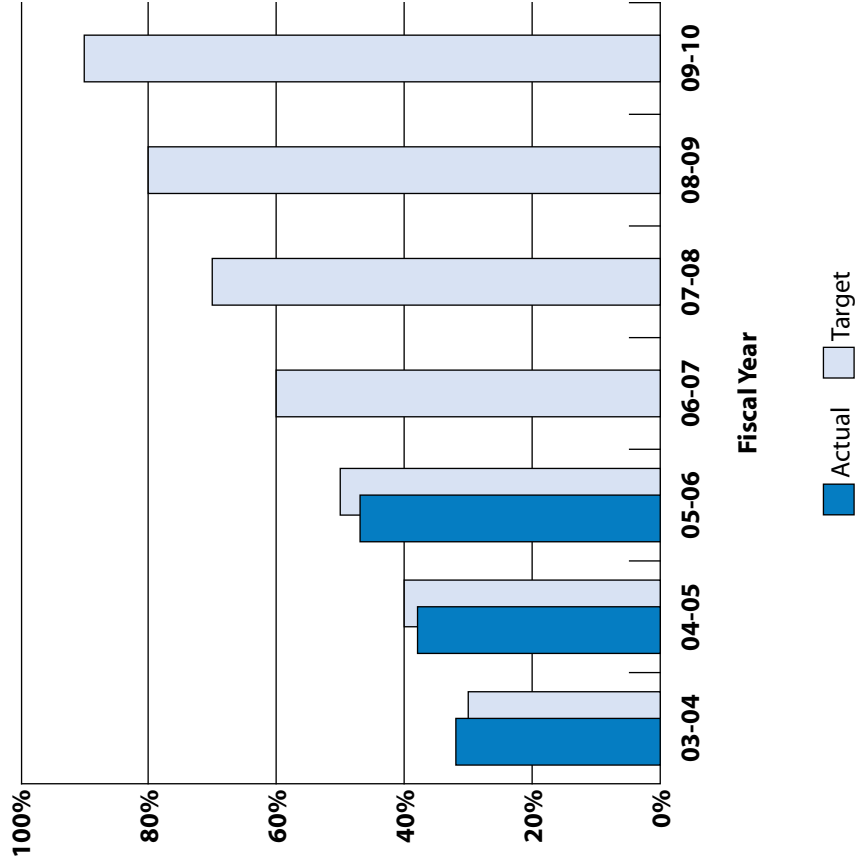
Conversion projects, which convert paper maps to scanned maps, are complete. These scanned maps, are further enhanced to become "smart" maps through the GIS application. A GIS is an automated system for the capture, storage, retrieval, analysis, and display of spatial data.

### What needs to be done as a result of this analysis?

The department and the counties will need to continue to partner with each other and other constituencies in the Oregon Map (ORMAP) project.

Fiscal Year	Actual	Target
2007-08	—	70%
2008-09	—	80%
2009-10	—	90%
2011-12	—	100%

### Percent of Assessors' Maps Digitized in a GIS Format



## Appendix E: Federal Forest Revenue Crisis

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### Rural Oregon Reliance on Federal Forest Revenue

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Many county governments in Oregon receive revenue from timber harvest on federal lands. Federal lands, which are exempt from property taxation, account for almost half of Oregon's territory. For almost a century, revenue from timber harvest on those lands has been shared with the counties that provide services to them.

Timber harvest on federal lands has declined sharply and resulted in Congress passing PL 106-393 (2000) appropriating federal general fund dollars to replace lost revenue from federal timber sales. Oregon counties received more than half of the federal general fund dollars appropriated by PL 106-393. Oregon counties received nearly \$200 million in federal forest revenue for roads and other government services while rural schools received \$34 million in federal fiscal year 2005–06. PL 106-393 expired in 2006. As of May 2007, no extension of the funding for the federal payments has been approved.

Unlike school funding that spreads a local revenue shortfall among all schools in the state, each county stands alone when its revenue falls short. The counties most reliant on federal forest revenue would need to increase taxes between \$4 and \$26 per \$1,000 of assessed property value to replace the federal forest revenue. In 1997, Measure 50 permanently set local government property tax rates. The constitutional formula that set the permanent rates was based upon revenue streams that existed at the time Measure 50 was enacted. Counties that had significant non-tax revenue streams such as the federal forest revenues received lower permanent tax rates than those counties that didn't have similar non-tax revenue streams. The constitution makes no provision to change a local government's permanent property tax rate even when significant revenue sources fail.

Many Oregon counties need substantially more revenue than can be raised by property taxes to continue essential government services such as law enforcement, disaster relief, homeland security, juvenile services, health services, district attorney, county clerk and tax assessment and collection. Loss of those services, in turn, will impact other Oregon communities.

### Possible Impacts to Oregon

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If federal forest revenue is not restored:

- The revenue sharing mechanism underlying the federal forest revenue would revert to the original formula. County governments alone will lose

about \$197 million per year in federal payments<sup>20</sup> now used for essential government services and road maintenance.

- Several southern Oregon counties would make severe cuts in local government services. The five counties most reliant on federal forest revenue are Douglas, Curry, Josephine, Grant, and Lake. Each of these counties would lose more than half of their discretionary general operating and road funds.
- Several rural counties will lose more than half of their county road fund revenue from federal and state sources. Three counties (Harney, Grant, and Wheeler) will lose about three-fourths of their total county road fund revenue.
- Services provided by counties—including assessment and taxation responsibilities—may be shifted to state agencies without a corresponding shift in revenue.
- Resources of other local taxing districts, including cities, fire and water districts, and schools, will be jeopardized or impaired if a county cannot meet its obligations to assess, collect, and distribute property taxes.
- Some local governments face an inability to perform mandated functions unless other ways to fill the revenue gap can be found.
- Many county and rural school districts would be in the position of seeking temporary local option tax increases in a piecemeal fashion. The tax rate limitation imposed by Measure 5 may impair some districts' ability to raise sufficient tax revenue.
- All Oregon school districts must share more of the school finance needs of some rural schools unless impacted rural schools find other local revenue to offset the loss of federal forest funds.
- Local school financing will be reduced about \$30 million per year<sup>21</sup>. The current state school finance formula will spread the loss in revenue to all school districts in Oregon. The state general fund will need to replace about \$60 million per biennium in local revenue that schools will lose unless another local revenue source can be found.

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20 The Association of Oregon Counties estimates receipts from national forest lands that would be apportioned to counties under the original formula are about \$23 million, a loss of about 90 percent.

21 The Association of Oregon Counties estimates actual payments to schools from national forest lands under the original formula are about \$4 million, a loss of about 90 percent.



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