CHAPTER 2: PROPERTY TAX

The property tax is the second largest tax in Oregon, providing most of the revenue for nonschool local governments and roughly one quarter of the revenue for school districts. Total property taxes imposed, including taxes for urban renewal agencies, are forecasted to total $8.0 billion in the 2005-07 biennium and $8.6 billion in the 2007–09 biennium.

Oregon's property tax system underwent a major transformation in 1997–98 as the voter-approved Measure 50 was implemented. Measure 50 cut property taxes and made three fundamental changes to the structure of the property tax system: first, it replaced most tax levies with permanent tax rates; second, it rolled back the assessed value of every property in the state to 90 percent of its 1995–96 assessed value; and third, it limited the future growth in each property's assessed value to 3 percent per year.

The Department of Revenue also publishes an annual report that provides detailed statistics on Oregon's property tax system. The most recent edition of *Oregon Property Tax Statistics* can be found at http://www.oregon.gov/DOR/STATS/index.shtml.

Property Tax Expenditures

The tax base for the property tax is considered to be all property in Oregon. Tax expenditures occur when certain property is removed from the assessment roll and thus excluded from taxation. There are three types of property tax expenditures: full exemption, partial exemption, and special assessment. A property tax expenditure may exempt a property's entire value from taxation, referred to as a full exemption, or may exempt only a portion of value. These partial exemptions exist in several different forms. For example, a program may exempt only improvement value, but the land value continues to be taxed. Other properties may be exempt from their city tax rate but pay all other property taxes. Partial exemptions also result when taxable value is frozen at a point in time, and all additions to value are exempt from taxation.

A final type of property tax expenditure is known as a special assessment. Specially assessed properties are valued using an assessment technique that results in a lower taxable value than would be the case if the usual assessment practice were used.

Revenue Loss and Shift

The revenue impact for property tax expenditures consists of two components: revenue loss and shift. Under Oregon's property tax system before Measure 5 passed in 1990, if property value was removed from the assessment roll because it was exempt, the result was a higher tax rate applied to all remaining property. There was no revenue loss to districts, and taxes were shifted completely to other properties. In contrast, under the tax rate limitations of Measure 5, exempting property from taxation resulted in revenue losses for local districts if tax rates were at the constitutional rate limits, because rates could not rise to compensate for the reduction in taxable value. If tax rates were below the rate limits, rates could rise to compensate for the lower taxable value, and taxes were shifted to other properties.

Under the Measure 50 system, exempting property from taxation can still result in both a loss and a shift, much like under the Measure 5 system. Losses occur because the permanent tax rates established by Measure 50 do not adjust in response to changes in taxable assessed value. Consequently, the granting of property tax exemptions leads to revenue losses for local governments and schools. Shifts occur because most bond and local option taxes are passed by voters as fixed dollar amounts, which must be paid by owners of all taxable property. The removal of value leads to a higher tax rate, shifting taxes to other properties. Because nearly 80 percent of all property taxes are from permanent rates, the revenue losses due to property tax exemptions are much larger than the shifts.

Property Tax

Property tax expenditures also interact with other parts of the public finance system. Because part of the property tax revenue lost to school districts is replaced by state funding to schools, property tax exemptions have an indirect effect on the state General Fund. This replacement component is not included in the revenue impacts reported here. For all property tax expenditures, the detailed descriptions report both the revenue loss and shift separately, while Tables 1 and 2 report only the loss.

2.001 ACADEMIES, DAY CARE, AND STUDENT HOUSING

Oregon Statute: 307.145
Sunset Date: None
Year Enacted: 1957

2005–06 Assessed Value of Property Exempted: $477.5 million

	Loss	Shift
2005–07 Revenue Impact:	$14,600,000	$2,200,000
2007–09 Revenue Impact:	$15,800,000	$2,400,000

DESCRIPTION: Property owned by a charitable or religious organization that is used for child care facilities, schools, academies, or student housing accommodations is exempt from property taxation, if not exempt under ORS 307.130 as literary or scientific [Charitable, Literary, and Scientific Organizations (2.075)]. Child care facilities must be certified by the Child Care Division of the Employment Department. To qualify, the property must be used exclusively for, or in immediate connection with, educational purposes. The organization must file an application with the county assessor to claim the exemption.

PURPOSE: To maintain tax treatment for certain school and child care properties that is analogous to the treatment provided to similar organizations (See Charitable, Literary, and Scientific Organizations (2.075) exemption).

WHO BENEFITS: Approximately 620 schools and day care properties in 15 counties were exempt in fiscal year 2005–06. Almost half of the accounts and 70 percent of the value of exempted property are in Multnomah County.

EVALUATION: This tax expenditure is partially used by organizations that qualify through the Oregon Pre-kindergarten program and achieves its purpose for at least those organizations. It reduces costs of the Oregon Pre-kindergarten program, which helps lay the groundwork for a child's intellectual, emotional, social, and physical development; it helps children get a good start in life by supporting strong parenting, appropriate education, and adequate nutrition and health care. The Oregon Pre-kindergarten program serves children who are below the federal poverty level. Studies have shown that participation in a quality preschool program increases the chances of a child successfully completing school and holding a job while decreasing the chances of dropping out of school and needing public assistance. Money invested in our youth through this program means less money will be required later for more costly programs. It is a fiscally effective method of achieving its purpose. *[Evaluated by the Department of Education.]*

2.002 STUDENT HOUSING FURNISHINGS

Oregon Statute: 307.195
Sunset Date: None
Year Enacted: 1957

2005–06 Assessed Value of Property Exempted: $3.6 million

	Loss	Shift
2005–07 Revenue Impact:	$100,000	Less than $50,000
2007–09 Revenue Impact:	$100,000	Less than $50,000

DESCRIPTION: Generally, household furnishings that are leased with a housing unit are considered taxable. However, all personal property, furniture, goods, and furnishings in a student housing cooperative, fraternity, or sorority are exempt from property taxation so long as the housing is not rented out for profit.

PURPOSE: To help keep college housing costs to a minimum.

WHO BENEFITS: Nonprofit organizations that rent furnished units to college students.

EVALUATION: This tax expenditure achieves its purpose. As with real property taxes, the tax exemption on personal property for not-for-profit student housing is a valuable provision in minimizing housing costs for students. It is a fiscally effective means of achieving its purpose. *[Evaluated by the Oregon University System.]*

2.003 LEASED STUDENT HOUSING PUBLICLY OWNED

Oregon Statute: 307.110(3)(a)
Sunset Date: None
Year Enacted: 1947

2005–06 Assessed Value of Property Exempted: $282.5 million

	Loss	Shift
2005–07 Revenue Impact:	$8,700,000	$1,300,000
2007–09 Revenue Impact:	$9,600,000	$1,400,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, all publicly owned property that is rented or leased to students attending a school or college, such as state-owned dormitory rooms, is exempt from property tax. This provision applies to all student housing, such as dormitories and student family housing, owned by the Oregon University System and leased by publicly owned schools to students. Dormitories owned by private colleges generally fall under the Charitable, Literary, or Scientific Organizations exemption (2.075).

PURPOSE: To help keep college housing costs to a minimum.

WHO BENEFITS: Approximately 10,000 students who lease dorm rooms or apartments from eight state colleges and universities.

EVALUATION: This tax expenditure achieves its purpose and is critical to minimizing the cost of student housing. Housing costs are one of the major expenses to students, particularly at a time when their income generation is limited and generally committed to education expenses. Exempting these properties from taxes is a tremendous contribution in facilitating access to higher education. This is probably the most fiscally effective means of addressing this particular issue. *[Evaluated by the Oregon University System.]*

2.004 HIGHER EDUCATION PARKING SPACE

Oregon Statute: 307.095(3)
Sunset Date: None
Year Enacted: 1989

2005–06 Assessed Value of Property Exempted: $139.1 million

	Loss	Shift
2005–07 Revenue Impact:	$4,200,000	$600,000
2007–09 Revenue Impact:	$4,300,000	$600,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, state property owned by the Oregon University System and rented to employees, students, or visitors for parking use is exempt from property tax. University spaces rented to the general public for a fee are taxable.

PURPOSE: To help keep college costs to a minimum.

WHO BENEFITS: All eight higher education campuses rent parking spaces to students, employees, and visitors. Some are paved lots and others are parking structures built with bond revenue. Most of the value is in Portland at Oregon Health and Sciences University and Portland State University.

EVALUATION: This tax expenditure achieves its purpose and is an additional element in providing access to higher education. Reducing the cost of parking for students, who generally have a severely limited income, is another means of providing financial assistance to students attending colleges and universities. Applying this exemption to all parking eliminates the administrative costs of separately tracking student and employee parking. *[Evaluated by the Oregon University System.]*

2.005 PRIVATE LIBRARIES FOR PUBLIC USE

Oregon Statute: 307.160
Sunset Date: None
Year Enacted: 1854

2005–06 Assessed Value of Property Exempted: $0.5 million

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: Private property used as a library open to the public is exempt from property taxation. The exemption includes the real property, books, and furnishings dedicated to library use. Privately owned libraries open to the general public use the exemption while publicly owned libraries are exempt under State and Local Property (2.070). The owner must file an application with the county assessor to claim the exemption (ORS 307.162).

PURPOSE: To broaden the application of the Charitable, Literary, and Scientific Organization exemption (2.075) to public or private libraries, treating them as places of learning similar to schools.

WHO BENEFITS: Seven libraries use this exemption within Jackson, Lane, and Multnomah counties.

EVALUATION: ORS 307.160, in all but two cases, is no longer necessary to ensure that Oregonians have access to public library services. The law was first enacted by the Territorial Government in 1854. That was nearly a half-century before Oregon had a public library law that enabled local communities to establish tax-supported libraries. Today there are 132 such libraries serving most of the state and a number of other libraries, mostly organized as non-profit corporations, that do not claim the exemption afforded under ORS 307.160.

The Oregon State Library Board of Trustees would offer the following comments about libraries in the three counties that report tax expenditures under ORS 307.160:

Jackson County
Public library services are available to all Jackson County residents from the Jackson County Library, a department of Jackson County. This county library maintains libraries in 15 communities throughout Jackson County. There is no need for additional private libraries to provide public library services in the county, though the Rogue Valley Genealogical Society does provide family history research services not provided by the Jackson County Library. It may be that the Society could obtain a tax exemption under other provisions of Oregon law if ORS 307.160 was repealed.

Lane County
The Blue River Library, run by volunteers, has for many years served an isolated population in rural northeast Lane County that does not have any other public library services. Lane County does not have a county library. Lane County residents living outside of Eugene, Springfield, Junction City, Cottage Grove, Oakridge, and three library districts headquartered in Veneta, Florence, and Creswell do not have public library services.

The Dexter Library is a volunteer library that was established several years ago. They applied for, and were granted, an exemption under ORS 307.160 beginning in the 2002 tax year.

The Lane Library District in Creswell was formed in 2005. They lease a facility from the Gemmell Living Trust. They negotiated a lease with the Trust that gives them reduced lease costs due to the fact that the Trust has been granted an exemption from property taxes by Lane County under ORS 307.160. The Oregon Department of Revenue has indicated that the Trust would also be exempt under ORS 307.090 and ORS 307.112. This law gives all municipal corporations the ability to lease facilities that then become tax exempt upon approval of a claim for exemption by a county. This being the case, repeal of ORS 307.160 would not adversely affect the Lane Library District, assuming the Lane County would be willing to approve an exemption for the Gemmell Living Trust under ORS 307.090 and 307.112.

The Lane Library League is currently working toward a plan that could bring public library services to all of Lane County. Until such a plan can be implemented, there will continue to be a need for the services provided by the Blue River Library and the

Dexter Library which probably could not operate without their tax exemption under ORS 307.160.

Multnomah County
The Multnomah County Library, a department of Multnomah County, serves all of the residents of Multnomah County from their Central Library and 16 branch libraries throughout the county. The State Library has not gathered information about the Polish Library, but we assume that it serves a special clientele, possibly with Polish-language materials that are not readily available at the Multnomah County Library. It may be that the Association could obtain a tax exemption under other provisions of Oregon law if ORS 307.160 was repealed.

The conclusion of this county-by-county analysis is that once the plans of the Lane Library League can be implemented, and if the Polish Library and the Rogue Valley Genealogical Society were able to receive a tax exemption under some other provision of ORS 307, there may not be a need to continue the tax exemption for private libraries provided by ORS 307.160.

The most fiscally effective means of providing quality public library services to all Oregonians is through the establishment of tax-supported public libraries under the provisions of ORS 357. Over 200 communities in Oregon have chosen to establish tax-supported public libraries under ORS 357. As was stated above, ORS 307.160 is a vestige of the situation prior to the development of tax-supported public library enabling legislation, beginning in 1901. Within a few years, as explained in the conclusion above, the State Library Board of Trustees hopes to be able to recommend to the Governor that ORS 307.160 be repealed. *[Evaluated by the State Library.]*

2.006 LEASED HEALTH CARE PROPERTY

Oregon Statute: 307.110(3)(h)
Sunset Date: None
Year Enacted: 1999

2005–06 Assessed Value of Property Exempted: $1.4 million

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. This tax expenditure exempts the property of a health district if the property has been leased or rented for purposes of providing facilities for health care practitioners. The health district must be in a frontier rural practice county, as defined by the Office of Rural Health.

PURPOSE: To clarify the tax treatment of property that a health district owns but leases or rents to other health care providers.

WHO BENEFITS: Residents of rural communities who have formed to support a health district.

EVALUATION: This modest benefit costs local governments less than $50,000 per biennium and affects only seven Oregon counties. It allows very fragile rural hospitals that are located in “frontier” communities to use a portion of their property to provide office space for physicians, without incurring a tax liability on those properties. Provision of adequate and convenient office space is often a critical factor in the recruitment and retention of rural physicians. Passage of this law has allowed Harney District Hospital to complete new office suites for its physicians and will play a significant role in allowing Wallowa Memorial Hospital in Enterprise to build a badly-needed new facility. *[Evaluated by the Office of Rural Health.]*

2.007 SENIOR SERVICES CENTERS

Oregon Statute: 307.147
Sunset Date: None
Year Enacted: 1993

2005–06 Assessed Value of Property Exempted: $7 million

	Loss	Shift
2005–07 Revenue Impact:	$200,000	Less than $50,000
2007–09 Revenue Impact:	$200,000	Less than $50,000

DESCRIPTION: Property that is owned by a nonprofit organization and used for senior services and qualified activities is exempt from property tax. To qualify, the property must be open to people over age 50 and used for senior activities. Eligible activities include food service programs, exercise and health screening, estate planning, crafts workshops, and dances. If the property is used primarily for fund raising or as living quarters, then the exemption is not allowed. The nonprofit organization must file an application with the county assessor to claim the exemption.

PURPOSE: To expand upon the Charitable, Literary, and Scientific Organizations (2.075) exemption.

WHO BENEFITS: Roughly 20 properties located in Coos, Curry, Douglas, Hood River, Linn, and Marion counties.

EVALUATION: There is insufficient information at this time to determine if this tax expenditure achieves its purpose. While it does exempt properties that do not meet the requirements of Charitable, Literary, and Scientific Organizations (2.075), one concern is the restriction placed on fund raising. This condition often translates into a choice for senior service centers between fund raising and this property tax exemption. It is not likely that many centers will opt for the exemption over the fund raising so questions of applicability and efficiency of this tax expenditure arise. *[Evaluated by the Department of Human Services.]*

2.008 COMMERCIAL BUILDINGS UNDER CONSTRUCTION

Oregon Statute: 307.340
Sunset Date: None
Year Enacted: 1959

2005–06 Assessed Value of Property Exempted: $211.3 million

	Loss	Shift
2005–07 Revenue Impact:	$4,900,000	$800,000
2007–09 Revenue Impact:	$5,000,000	$800,000

DESCRIPTION: Certain commercial and industrial buildings are exempt from property taxation while they are under construction. A new structure or addition is exempt from property taxation if, on the January 1 assessment date, it:

- is under construction,
- no part of the new structure or improvement is in commercial use or occupancy,
- is being built for the purpose of earning income,
- is not to be occupied for at least one year after beginning construction if a non-manufacturing facility, and
- is not centrally assessed property.

The exemption cannot be claimed for more than two years. Machinery and equipment at the building site also qualifies if it is to be installed in the structure. The property is listed for assessment but the assessment is canceled if proof that the property meets the above requirements is furnished to the assessor by April 1 of the assessment year.

The revenue impact estimates include Construction-in-Process in an Enterprise Zone (2.009).

PURPOSE: To encourage investment in business by delaying property taxes until the facility can earn income.

WHO BENEFITS: Roughly 548 properties were exempt in 2005–06 under this expenditure or technically under Construction-in-Process in an Enterprise Zone (2.009). The location and amount can fluctuate substantially from year to year as major construction projects take place. Typically the majority of the exempt value is in the Portland metro area; 534 of the 2005-06 properties were in Multnomah County.

EVALUATION: This expenditure achieves its purpose by allowing new investments to delay paying property taxes until they are actually earning income. Economic consequences are also relevant. New construction and investments might be significantly deterred by the additional up-front cost of paying property taxes on partially finished but unproductive property.

This expenditure is also fiscally effective. Alternatives to this expenditure would be to refund such taxes through direct payments or credits on other taxes. The administrative burdens and complexity of these alternatives suggest that the current cancellation is the most fiscally effective means of achieving the purpose.

This program might be under-utilized, probably because it is not widely known (aside from utilization with enterprise zones or in the Portland metropolitan area) and administrative technicalities may have limited its accessibility. *[Evaluated by the Economic and Community Development Department.]*

2.009 CONSTRUCTION-IN-PROCESS IN AN ENTERPRISE ZONE

Oregon Statute: 285C.170
Sunset Date: 6-30-09
Year Enacted: 2003 (HB 2299)

2005–06 Assessed Value of Property Exempted: Incl. in Commercial Buildings Under Construction (2.008)

	Loss	Shift
2005–07 Revenue Impact:	Included in 2.008	Included in 2.008
2007–09 Revenue Impact:	Included in 2.008	Included in 2.008

DESCRIPTION: Property undergoing construction, addition, modification, or installation is exempt from property taxation for up to two consecutive years provided that it meets the following requirements:

- the property is located in an enterprise zone,
- the property is owned or leased by a business firm with active authorization,
- the property will be qualified property upon completion, and there is no known reason to conclude that the property or firm will not satisfy the requirements for Enterprise Zone Businesses (2.010),
- the property has not been exempt under Commercial Buildings Under Construction (2.008),
- the property will not be centrally assessed, and
- the property will not be operated as a hotel, motel, or destination resort.

PURPOSE: To provide an exemption virtually identical to Commercial Buildings Under Construction (2.008) that more automatically and fully dovetails into the regular enterprise zone exemption—see Enterprise Zone Businesses (2.010)—to avoid technical discrepancies amongst property/project types that are exempt and to simplify communication about total tax benefit for investing in an enterprise zone.

WHO BENEFITS: See Enterprise Zone Businesses (2.010).

EVALUATION: This program has already achieved its purpose in allowing for a more straightforward message about the new property to be exempted in an enterprise zone, before and after that property is placed in service. Most enterprise zone projects will – while under construction – fall under this exemption, which will cover somewhat more property than might otherwise be the case under Commercial Building Under Construction (2.008). Such additional coverage under this provision include:

- A project of an authorized firm without new construction or addition to a building, but rather only modifications to or installations of qualified property,
- Non-manufacturing facility (*e.g.*, a warehouse) of an authorized business firm taking less than 12 months to build,
- Qualified property items that once installed are still personal property,
- Machinery and equipment installed directly on land and not inside a building or otherwise affixed to a structure, and
- Property that is still in the process of construction, reconstruction, modification or installation in a year, even after some part of the same facility or building has already been placed in service. *[Evaluated by the Economic and Community Development Department.]*

2.010 ENTERPRISE ZONE BUSINESSES

Oregon Statute: 285C.175
Sunset Date: 6-30-09
Year Enacted: 1985, Modified in 2005 (HB 3143)

2005–06 Assessed Value of Property Exempted: $910.2 million

	Loss	Shift
2005–07 Revenue Impact:	$26,100,000	$4,300,000
2007–09 Revenue Impact:	$30,800,000	$5,000,000

DESCRIPTION: Qualified property owned or leased by a qualified business firm in an enterprise zone is exempt from property tax for three years. The local zone sponsor may increase the exemption period to a total of four or five consecutive years, if statutory employee compensation requirements and other specified sponsor conditions are satisfied. The qualified property must be used to produce income.

Cities, ports and counties apply for and sponsor enterprise zones inside their territory, or such governments may consent to a zone sponsored by other such jurisdictions. The applicant for a new designation or re-designation must consult with all taxing districts within the area proposed for designation in preparing applications to Economic and Community Development Department. Zone designations statewide cannot exceed 57, plus Reservation Enterprise Zones (see 1.154) and those based on federal designations.

An enterprise zone designation terminates after 10 years. A business firm qualified or authorized when the zone terminates may continue to qualify subsequent, continuous expansions of its zone operations up to 10 years after the zone terminates if certain criteria are met. The director of the Economic and Community Development Department designates new zones as and when existing zones are terminated.

A business firm qualifies if the firm meets all of the following conditions:

- provides eligible products or services (assembly, fabrication, storage, *etc*.) as determined by statute and the designating agencies,
- is authorized pursuant to an application submitted before the start of new construction or installations of qualified property and approved by the local zone manager and county assessor,
- owns or leases qualified property that is part of the authorized business operations inside the zone,
- enters into a first-source hiring agreement to notify publicly funded job-training providers (community college, WIA, state agencies) of job openings, and to consider their referrals of qualified job applicants during exemption period,
- increases its full-time, year-round employment inside the enterprise zone by 10 percent or one employee, whichever is greater,
- maintains at least minimum employment levels during each year of the exemption, and
- does not initially diminish employment outside the zone boundary, except within 30 miles subject to an overall 10 percent increase.

The following property of a qualified firm qualifies for the exemption, if generically indicated in the authorization application (regardless of total actual cost), and if it is first placed in service inside the zone in the immediate prior calendar year:

- all newly constructed, added to, modified or installed real property (buildings, structures and affixed/heavy machinery and equipment) if costing $50,000 or more in total,
- modifications to an existing real property item of machinery or equipment for which refurbishments, retrofits, reconditioning or upgrades cost $50,000 or more,
- an item of newly installed personal property costing $50,000 or more, and
- an item of newly installed personal property costing $1,000 or more, if used in the production process for tangible goods or for electronic commerce in an E-commerce zone.

Regardless of all else, property must not be assessed or any work begun on it until after the zone is effectively designated or amended to include its location, and newly installed machinery and equipment or personal property must be either newly acquired or newly transferred into the zone from outside the county.

Property is disqualified if it is moved outside the zone or used for ineligible activity (*e.g.*, retail) or if the firm curtails operations or closes. When property is disqualified, all prior exempt taxes must be repaid.

PURPOSE: To "stimulate employment, business and industrial growth" in areas "that need the particular attention of government to help attract private business investment ... by providing tax incentives in those areas" (ORS 285C.055).

WHO BENEFITS: Owners, employees, customers, and suppliers of eligible business firms, and the communities in which they are located.

As of August 2006, there were 55 enterprise zones spread throughout the state in 35 of the 36 counties; of these, nine are "urban." These designations are sponsored by 96 cities, 2 ports, 29 counties and 1 Indian Tribe. Most enterprise zone businesses are manufacturing facilities, but approved properties include hotels, call centers, distribution centers, and other types of unconventional industries.

EVALUATION: This expenditure achieves its purpose. The program has been associated with numerous job-creating investments by mostly in-state companies, as well as some companies attracted from out-of-state, that have benefited Oregon and its economy. The program stimulates the creation of 1,000 to 2,500 jobs each year. These jobs are located in economically depressed areas and have been effective in improving the quality of life of residents in these areas either directly, by providing employment opportunities, or indirectly, through increased business activity, tax receipts and induced effects, as well as the initial stimulation from construction. Although a few zones have been unable to attract new investment, most have had at least significant activity.

Issues of equity arise with respect to those who directly benefit from a tax incentive program. Such inequity is justified by the overall benefits that accrue indirectly from economic development. In addition, these zones are relatively common, their benefits are the same throughout the state, and the typical zone covers all property within an area. These characteristics allow a wide spectrum of businesses to participate.

This expenditure is also fiscally effective. The administration is simple, inexpensive, and minimizes the possibility of abuse. Initially (in the 1980s), the program faced cumbersome statutory provisions, but those were thoroughly revised by the 1989

Legislature. The short time frame of the exemption, three to five years, keeps the cost of the program modest. One alternative to this property tax exemption would be an income tax credit, but that might be more difficult to administer, and some firms would be unable to benefit due to lack of tax liability.

A final issue is whether enterprise zone investments would have been made even without this tax incentive. Indisputably, some would have. However, a substantial number of zone investments would not have occurred at all, or would have been significantly delayed, smaller, or less likely to survive their first few years, without the exemption. In addition, this program directs the investment to the areas of the state that are most needy.

In 2003, only a few modest policy changes were enacted [OR Laws 2003, Chapter 662 (HB 2299)] but the statutory scheme was thoroughly revisited and redesigned. In 2005, 10 more enterprise zones were allowed, of which six were designated by August 2006. That year's bill also provided for local zone sponsorship by ports and required consultation with all local taxing districts for any future designation.

With respect to recent/current activities, observations about the regular enterprise zone program—three to five-year exemption—may be broken-down as follows:

Private-sector Capital Investments—In the 2005-06 property tax year, there were 133 different exemptions, corresponding to 115 distinct investment projects. Businesses that were new to the enterprise zone—*i.e.*, not already operating there—comprised just 25 of these projects.

Total investments approximated $1.5 billion, representing $1.29 billion dollars in new, tax-exempt property value, which equated to $18.6 million in property tax savings for qualified business firms in 2005-06.

These property tax savings and the underlying investments vary by orders of magnitude. Tax savings range from $0 to $3,800,000, with an average of about $140,000, but a median value of only $13,735.

Three quarters of the investments are under $5 million, while much of the total exempt value is dominated by only nine projects costing in excess of $25 million each, including a few giant capital projects worth hundreds of million of dollars.

The *extended abatement* program (which with local agreement offers two additional years for five consecutive years of exemption), accounted for 35 exemptions out of 115, but 71 percent of the exempt value. As such, the average length for all exemptions was 4.4 years.

In 2006, another 44 distinct investments costing about $224 million in total will commence enterprise zone exemptions. And in the next few years, proposed investments by authorized business firms will readily exceed $1 billion.

Job Creation—New, full time employees is slightly less than 5,900, in terms of persons working for qualified business firms receiving 2005-06 exemptions from property taxes. (Existing – potentially retained – employment with these firms in the enterprise zone was greater than 8,700)

Newly completed investments that begin exemptions in 2006-07 are associated with another 1,252 jobs.

By local resolution(s), a business firm may receive enterprise zone benefits without increasing employment or even with a net loss of jobs; in almost every case, though, the business firm's enterprise zone employment must rise by the greater of one job or 10 percent—and be annually maintained at that level during the tax abatement period. The average increase was 44 new, full-time, year-round employees for investments exempted in 2005-06.

For extended abatements of four or five years, new jobs totaled 1,789 in relation to the 2005-06 exemptions. To receive the extension (except for Portland-area urban zones), these new employees must enjoy average annual compensation that equals or exceeds 150 percent of the county average annual wage, which across applicable counties would mean a current standard of $46,142 per year.

Property tax savings per new job averaged $13,981 for all exempted projects, and $37,966 for extended abatements, over the total (average) length of the exemption period. These sorts of statewide figures remain highly problematic—varying dramatically from year to year, and they can shrink many times if one or two very extreme outliers are removed in terms of massive projects with little or no new jobs, which (must) receive special local sponsor approval.

Expansion of Property Tax Base—In addition to the direct job creation, as well as indirect or induced effects from business investments and hiring in the enterprise zones, there is a longer-run benefit to the public: Increased property tax revenues.

Since the program's beginning, in excess of $2.5 billion in taxable property value has been added to county assessment rolls at the conclusion of an enterprise zone exemption, with as much as another $2 billion to be added over the next five years.

Some of this property value might have been produced anyway, but by no means all. Also, while some of it will have been retired and removed from the state by now, other property would have been invested by the business that has not or did not qualify for exemption, and other local property investments and values will have risen as a result, too.

Communities & Local Economies. As noted already, enterprise zones are found throughout the state. Compared to other states, Oregon's program continues to stand out for its rural basis. For several years, the trend had been for designations to be found increasingly in the more sparsely populated parts of the state. In 2005 and 2006, this trend was somewhat reversed, in that four urban zones were designated, including an unprecedented three in the greater Portland metropolitan area.

Total capital investment tends to be much greater in the more urban environs and population centers of the Willamette Valley and the Northwest of Oregon. In terms of projects and jobs, enterprise zones in the state's central corridor and southwest are performing quite well, in general.

Combining the 2005-06 exemptions and newly completed investments for 2006, 18 of the 55 enterprise zones have no activity. A few of these 18 zones have been active in the past, and/or they have proposed projects under construction. Six were designated only in 2006. Nevertheless, nine zones have existed for several years and had next to no activity or prospects, and for other enterprise zones in smaller, more isolated localities, only a very few, modest projects may ever be seen. Part of this can be remedied with improved local effort, aggressive marketing and better preparation of industrial sites.

Nevertheless, while enterprise zones do help to better distribute economic activity and resource utilization, they cannot by themselves overcome the barriers and disadvantages faced by some rural locations.

Statewide Business Recruitment. Oregon's enterprise zones are one of, if not the state's premier tool for inducing increased business investment and for competing with places outside of Oregon for the location of major new business opportunities.

Oftentimes, the exemption from property taxes may be the only significant incentive that Oregon can make available. By policy, of course, enterprise zones are discrete areas of limited quantity (albeit up to at least 59 statewide). Yet, even when a company looks to locate or expand in an enterprise zone, Oregon may still not be able to compete against the advantages and offerings available elsewhere.

As noted already, many users of the enterprise zone program are making relatively small capital investments, for which the resulting property tax savings can have only a limited effect on the business decision.

As investment size grows, the present-value benefit of avoiding cash outlays for taxes on new plant and equipment during the first few years of a project's life becomes increasingly significant and is crucial for attracting and retaining capital investment and associated traded-sector jobs in Oregon. *[Evaluated by the Economic and Community Development Department.]*

2.011 LONG-TERM RURAL ENTERPRISE ZONE (PROPERTY TAX)

Oregon Statute: 285C.406
Sunset Date: 06-30-09
Year Enacted: 1997, Modified in 2005 (HB 2234)

2005–06 Assessed Value of Property Exempted: $106.0 million

	Loss	Shift
2005–07 Revenue Impact:	$2,200,000	$400,000
2007–09 Revenue Impact:	$2,600,000	$500,000

DESCRIPTION: The value of all new property and improvements at certain large facilities in a rural enterprise zone are exempt from property tax for 7 to 15 years. Prior to this locally determined period, this new property if owned or leased by a certified business firm is exempt while under construction.

A business applies for certification with the city, port and/or county sponsoring the enterprise zone and with the county assessor in which the zone is located. The following conditions must be met for approval:

- the investment must exceed a minimum amount ranging from $1 million to $25 million, depending on the location in the state,
- the firm must hire from 10 to 75 full-time employees within five years,

- the average annual compensation must be at least 50 percent above the county average,
- the governing body of the county or city has adopted a resolution approving the tax exemption,
- the business has committed to meet the investment and hiring requirements,
- the business has a written agreement with the cities, ports or county that sponsor the zone, which may include additional requirements, such as contributions for local services or infrastructure, and
- the facility is located in a rural enterprise zone and within a county with chronic unemployment or low income, as defined in statute, when the local agreement is executed.

If a certified business fails to meet the requirements of the program, all prior exempt taxes must be repaid.

Properties receiving the property tax exemption are also eligible to receive a corporate income tax credit [Long-Term Rural Enterprise Zone (Income Tax) (1.153)], if approved by the governor.

There are a few key differences between this expenditure and Enterprise Zone Businesses (2.010). First, there is a significant minimum investment requirement here, ranging from $1 million to $25 million. Second, this expenditure exempts qualified businesses from property tax for up to 15 years, whereas under Enterprise Zone Businesses the exemption period is for no more than five consecutive years. Third, this expenditure exempts all property (except for land and other preexisting property value), whereas under Enterprise Zone Businesses some personal property is not exempt. Finally, the location of the business must be in an eligible rural enterprise zone; for Enterprise Zone Businesses, business can be located in any rural or urban enterprise zone.

PURPOSE: To encourage investment in rural enterprise zone areas of chronic unemployment or low income.

WHO BENEFITS: Local officials had certified five business firms/project under this program, as of August 2006 … four of them in the previous 18 months. Several other companies proposing major new facilities and workforces are also seeking or inquiring to use these tax incentives. This provision is intended to benefit rural enterprise zones and the surrounding residents in counties with chronic unemployment or low income. Potential beneficiaries include the participating companies, their suppliers, customers, and employees.

EVALUATION: It is possible, and perhaps likely, that if Oregon did not have this provision, some investment in rural areas would have located to another state, or would not be looking so seriously at rural Oregon for major investments. Therefore, this provision appears to be having the intended effect on investment in Oregon.

Changes made by SB 245 passed in the 1999 legislative session made these long-term rural tax incentives conceivable as something that could induce much-needed private investment in Central and Eastern Oregon enterprise zones. Before these changes, the likelihood of them having an effect was very small in those locations and elsewhere. Other subsequent tweaks to the statutes have made this program even more useable and appreciated.

Interest and applications from investors has increased notably since 2004, as the state has adopted a more aggressive marketing stance, and the general economic climate improves. *[Evaluated by the Economic and Community Development Department.]*

2.012 CENTRALLY ASSESSED ELECTRICITY GENERATING FACILITY IN AN ENTERPRISE ZONE

Oregon Statute: Note following 285C.175
Sunset Date: 12-31-05
Year Enacted: 2003 (HB 2671)

2005–06 Assessed Value of Property Exempted: $0

	Loss	Shift
2005–07 Revenue Impact:	$0	$0
2007–09 Revenue Impact:	$0	$0

DESCRIPTION: The property of centrally assessed electricity generating facilities that were not yet operational as of June 1, 2003 and are located within an enterprise zone are exempt from property taxes for the 2003-04 tax year.

For this exemption to be allowed, the company and enterprise zone sponsor must enter into an agreement that meets the following requirements:

- the company and sponsor must enter into the agreement between June 1, 2003, and November 27, 2003,
- the terms of the agreement must include a promise from the company to make a payment in lieu of property taxes equal to the amount of property taxes assessed against the property for the 2002–03 tax year, and
- the agreement must set forth a distribution schedule under which the in lieu payment is distributed to taxing districts. The distribution schedule must meet certain conditions specified in the statute.

PURPOSE: To provide for a special, locally sought, mutually beneficial arrangement for a facility in Morrow County, for which the commencement of operations and thus the beginning of the regular enterprise zone exemption was delayed by unfortunate, unforeseen circumstances.

WHO BENEFITS: The facility, its employees, and the local community.

EVALUATION: Insufficient data for evaluation; unknown if timely agreement was, in fact, concluded. *[Evaluated by the Economic and Community Development Department.]*

2.013 ELECTRONIC COMMERCE ENTERPRISE ZONE (PROPERTY TAX)

Oregon Statutes: 285C.185
Sunset Date: None (Enterprise zone law sunsets 6-30-09.)
Year Enacted: 2001

2005-06 Assessed Value of Property Exempted: Included in 2.010

	Loss	Shift
2005-07 Revenue Impact:	Included in 2.010	Included in 2.010
2007-09 Revenue Impact:	Included in 2.010	Included in 2.010

DESCRIPTION: Qualified property owned or leased by a qualified business firm in an electronic commerce enterprise zone is exempt from property tax for three to five years.

The taxpayer is also eligible for an income tax credit based on its capital investment in electronic commerce assets—see tax expenditure Electronic Commerce Enterprise Zone (Income Tax) (1.155).

The electronic commerce zone is a specific type of enterprise zone, and this exemption does not differ substantially from what would be available in any existing enterprise zone—see tax expenditure Enterprise Zone Businesses (2.010).

The only property that may be effectively exempted from property taxes that would not normally be exempt under the standard enterprise zone exemption (2.010) is as follows:

- property in the electronic commerce city, which is not an enterprise zone, and which has not yet had an authorized electronic-commerce business firm,
- property of an electronic commerce business that would not otherwise be eligible under an enterprise zone exemption(no clear example has occurred yet),
- items of personal property used in electronic commerce that cost between $1,000 and $50,000, and
- property in which investment is additionally induced by the income tax credit (1.155).

"Electronic commerce" includes: engaging in commercial or retail transactions predominantly over the Internet or a computer network, utilizing the Internet as a platform for transacting business, or facilitating the use of the Internet, as well as related operations that support or ensue from the internet-based transactions or customer service, such as shipping and storage facilities for order fulfillment.

Cities, ports or counties wishing to establish an electronic commerce enterprise zone must apply to the Economic and Community Development Department. The zone must first be designated as an enterprise zone before it can become an electronic commerce zone. By statute, up to 10 electronic commerce zones and one electronic commerce city may be designated. In 2006, the there were nine designated Electronic Commerce Enterprise Zones and one Electronic Commerce City (North Plains).

PURPOSE: To encourage development of electronic commerce in particular areas and in Oregon as a whole.

WHO BENEFITS: Businesses operating in electronic commerce zones and cities.

EVALUATION: Respective to the above four points about property that is likely to be exempt in an area designated for "electronic commerce," but not necessarily otherwise, number 4 (inducement effect of the income tax credit) affords the best explanation for the activity seen so far in the electronic commerce enterprise zones.

The special income tax credit—see Electronic Commerce Enterprise Zone (Income Tax) (1.155)—provides not only an extra financial benefit, but it confers both tangible and intangible marketing strengths, by accentuating that the designated area is specially primed as a "hot spot" for *E-Commerce*.

The ability of a business, particularly a small start-up, to substantially gain from a credit against its income tax liability will always be problematic. The potential nevertheless exists, given the five-year carry-forward period. This suggests add-on incentives along with the regular enterprise zone exemption may make for potent combinations.

These marketing advantages have been notably exploited in the Medford Urban Enterprise Zone, where other local attributes and personal capabilities have conspired to produce remarkable results. The Roberts Creek Enterprise Zone has also had *E-Commerce* activity, including a major, strategic project. Interest is also arising in the other two original *e-commerce* enterprise zones.

In the new five electronic commerce zones, there are also imminent projects anticipated to be underway by 2007.

In the 2005-06 tax year, 14 *e-commerce* projects were receiving enterprise zone exemptions, totaling more than $25 million in property value and associated with736 new jobs. A few of these are receiving extended abatements, with the attendant high employee-compensation requirement—see Enterprise Zone Businesses (2.010).

In 2006, six more *e-commerce* investments of nearly $4 million will begin exemptions, adding 133 new employees as of April 2006. *[Evaluated by the Economic and Community Development Department.]*

2.014 RURAL RENEWABLE ENERGY DEVELOPMENT ZONE

Oregon Statute: 285C.362
Sunset Date: None (Enterprise zone law sunsets 6-30-09.)
Year Enacted: 2003, Modified in 2005 (HB 3350)

2005–06 Assessed Value of Property Exempted: $0

	Loss	Shift
2005–07 Revenue Impact:	$0	$0
2007–09 Revenue Impact:	$800,000	$100,000

DESCRIPTION: Cities in rural counties, rural counties, and combinations of contiguous rural counties may apply to the director of the Economic and Community Development Department for designation as a rural renewable energy development zone. The total amount of investment per project allowed is set by a local resolution for the exemption.

To qualify, property must:

- be used to generate electricity from renewable energy or support or maintain a renewable energy facility,

- be owned or leased by a business firm that meets the qualifications of an enterprise zone authorized business firm,
- be newly constructed or installed in the rural renewable energy development zone (RREDZ), and
- meet other requirements for enterprise zone property.

This property tax exemption applies for three years, but may be extended by the zone sponsor for two additional years. Essentially indistinguishable from the standard enterprise zone exemption—see Enterprise Zone Businesses (2.010)—this special designation is intended to facilitate physically very expansive forms of renewable energy—i.e., "wind farms." These could be served by a regular enterprise zone, but the zone's boundary would need to be amended in a highly awkward and gerrymandered way. So, this program was created to offer a more straightforward approach.

PURPOSE: To encourage investment and new jobs in association with energy production in rural areas.

WHO BENEFITS: Firms involved in the production of electricity generated from renewable energy resources in rural communities.

EVALUATION: Insufficient data for analysis. By September 2006, five counties have been designated as an RREDZ, and other counties are presently considering such designation. Two projects have been authorized, one for biomass combustion and one for wind-power. *[Evaluated by the Economic and Community Development Department.]*

2.015 INVENTORY

Oregon Statute: 307.400
Sunset Date: None
Year Enacted: 1969

2005-06 Assessed Value of Property Exempted: $15.1 billion

	Loss	Shift
2005–07 Revenue Impact:	$410,400,000	$75,900,000
2007–09 Revenue Impact:	$434,000,000	$80,300,000

DESCRIPTION: Inventory is exempt from property taxation. In general, inventory is tangible personal property that is or will become part of the stock held for sale in the ordinary course of a taxpayer's business. This includes materials, supplies, containers, goods in process, finished goods, and the for-sale inventory of retail shopping outlets, but not machinery and equipment used to produce these goods.

PURPOSE: To eliminate the tax compliance burden of enumerating inventory and to eliminate behavior specifically aimed at reducing inventories on the date of assessment, especially when that behavior negatively affects the economy.

WHO BENEFITS: Manufacturing, wholesale, and retail trade businesses are the primary beneficiaries of this exemption.

EVALUATION: This expenditure achieves its purpose. For most types of businesses (particularly manufacturers, wholesalers, and retailers), inventory represents the largest category of business assets. Therefore a property tax on inventory would tend to impact most businesses to a greater extent than existing *ad valorem* taxes on personal and real property.

Almost all states provide some form of relief from property taxes on the value of goods for sale and on supplies that are transformed into goods for sale. From this perspective, the Oregon exemption allows the state's businesses to be on equal footing with competitors located in other states. The provision's elimination of the burden of enumerating inventory for tax purposes eliminates a potentially large and unnecessary cost to businesses, especially small businesses, and leaves businesses freer to plan their inventory based on sound business practices. Moreover, the valuation of inventories on a particular date each year would represent a rather contrived exercise. *[Evaluated by the Economic and Community Development Department.]*

2.016 BUSINESS PERSONAL PROPERTY CANCELLATION

Oregon Statute: 308.250(2)
Sunset Date: None
Year Enacted: 1979

2005–06 Assessed Value of Property Exempted: $164.5 million

	Loss	Shift
2005–07 Revenue Impact:	$5,000,000	$800,000
2007–09 Revenue Impact:	$5,900,000	$1,000,000

DESCRIPTION: The county assessor may cancel the annual business personal property tax assessment for a taxpayer if the total assessed value of the property is less than the specified maximum. To receive this cancellation of taxes, the taxpayer must still file a return with the county assessor. After receiving an initial cancellation of taxes on this property, the taxpayer may file an annual statement declaring that the value continues to be less than the threshold.

Each year the Department of Revenue determines the maximum assessed value of personal property for which the property tax assessment may be canceled. This maximum value is determined by adjusting the prior year's maximum by the U.S. City Average Consumer Price Index and rounded to the nearest $500. The threshold is $14,000 for the tax year beginning July 1, 2006.

PURPOSE: To reduce the filing burden for small businesses and to reduce administrative costs related to the processing and collections of small business personal property accounts.

WHO BENEFITS: Over 48,600 accounts received this exemption in 2005–06.

EVALUATION: This cancellation is effective in reducing the filing burden for small business and is consistent with Oregon's desire to encourage entrepreneurial activity in the state. The average tax reduction is exceedingly small and probably, by itself, does not make much difference to the operation of the small business. However, the reduced filing burden, in combination with the modest tax cancellation, may help encourage small businesses to form and remain in business.

The cancellation probably does not reduce administrative costs for county assessors' offices, since the assessor must continue to track these accounts and revalue them each year with additions and deletions considered. *[Evaluated by the Economic and Community Development Department.]*

2.017 CARGO CONTAINERS

Oregon Statute: 307.835
Sunset Date: 6-30-10
Year Enacted: 1979, Sunset extended in 2003 (HB 2625)

2005–06 Assessed Value of Property Exempted: $12.1 million

	Loss	Shift
2005–07 Revenue Impact:	$300,000	$100,000
2007–09 Revenue Impact:	$400,000	$100,000

DESCRIPTION: Cargo containers primarily used for cargo transportation on oceangoing ships are exempt from property tax. Cargo containers must be designed for more than one mode of transport, be strong enough for repeated use, and be fitted with handling devices. The exemption in effect applies only to containers used in domestic trade. A 1979 U.S. Supreme Court decision exempts containers used in foreign commerce under the Foreign Commerce provisions of the U.S. Constitution.

PURPOSE: For administrative simplicity and to help Oregon ports remain competitive with Washington and California, which exempt all cargo containers.

WHO BENEFITS: Owners of cargo containers that are transported by oceangoing ships.

EVALUATION: Because most of the containers covered by this exemption would also be exempt from Oregon property tax due to their use in foreign commerce, the effectiveness of this exemption cannot reasonably be based on an evaluation of the exemption's impact on cargo container traffic. However, this exemption may be effective in eliminating a tax bias against the domestic use of cargo containers in Oregon. *[Evaluated by the Economic and Community Development Department.]*

2.018 LEASED DOCKS AND AIRPORTS

Oregon Statute: 307.120
Sunset Date: None
Year Enacted: 1947, Modified in 2003 (HB 2454)

2005–06 Assessed Value of Property Exempted: $286.2 million

	Loss	Shift
2005–07 Revenue Impact:	$8,500,000	$1,400,000
2007–09 Revenue Impact:	$10,000,000	$1,600,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, public dock property that is used for berthing ships or barges, or handling, loading, and unloading cargo from ships, or cleaning or decontaminating agricultural cargo is exempt from property tax. Dock property that is leased by a private entity and used for storage of cargo that is in transshipment is assessed an in lieu of tax payment as long as there is no change to the cargo. Dock property that is leased or used for any other purpose is not exempt.

Each year, the lessee must file an application with the county assessor to claim the exemption. Port district or city-owned airport property that serves a population of fewer than 300,000 and is leased and used by private individuals remains exempt as long as rent proceeds are used for airport maintenance.

An in lieu tax of one-quarter of one percent of real market value is assessed for these properties, and is distributed to school districts.

This tax expenditure covers agricultural commodity cleaning property, which was listed as a separate tax expenditure in previous reports. It is included here because it is treated the same as all property exempted by ORS 307.120.

PURPOSE: To exempt public dock property that is leased or rented by private individuals for certain purposes, probably to be more competitive with other states.

WHO BENEFITS: The lessees of dock and airport properties benefit from this provision. Exempt properties are located in 13 counties.

EVALUATION: This exemption is likely to shift a portion of the local property tax burden from owners and users of dock and airport property to owners of other property. However, increased economic activity due to this exemption may more than compensate for this tax shift by raising the level of corporate income taxes paid in Oregon. *[Evaluated by the Economic and Community Development Department.]*

2.019 LEASED PUBLICLY OWNED SHIPYARD PROPERTY

Oregon Statute: 307.111
Sunset Date: 6-30-10
Year Enacted: 1995

2005–06 Assessed Value of Property Exempted: $107.1 million

	Loss	Shift
2005–07 Revenue Impact:	$3,300,000	$500,000
2007–09 Revenue Impact:	$3,700,000	$500,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, publicly owned shipyard property leased by a sole contractor for ship repair, lay-up, conversion, or construction is exempt from property tax. The shipyard must be capable of dry-docking oceangoing vessels of 200,000 deadweight tons or more (this provision was intended to limit the exemption to the Port of Portland). Any shipyard property subleased by the sole contractor is excluded from the exemption. The property is also exempt from the in lieu of property tax payment to school districts equal to one-quarter of 1 percent.

The revenue impact reported here is based on the value of the entire shipyard (less any subleased property) because the entire shipyard is exempt under this statute.

	Historically the value of the property occupied by the sole contractor has been only about 10 percent of the value of the entire shipyard.
PURPOSE:	To promote the Port of Portland shipyard by making it more competitive with other shipyards for contracting ship repair and construction work.
WHO BENEFITS:	The beneficiaries are lessees of Port of Portland shipyard property.
EVALUATION:	This exemption appears to be effective. Using this exemption as a negotiating tool, the Port of Portland has successfully leased its shipyard property for the past two years despite strong competition from shipyard properties outside Oregon. Port officials believe that this exemption was an important factor in the success of this lease. *[Evaluated by the Economic and Community Development Department.]*

2.020 SHIP REPAIR FACILITY MATERIALS

Oregon Statute: 308.256(7)
Sunset Date: None
Year Enacted: 1957

2005–06 Assessed Value of Property Exempted: $0

	Loss	Shift
2005–07 Revenue Impact:	$0	$0
2007–09 Revenue Impact:	$0	$0

DESCRIPTION:	Materials and parts held by shipyards and ship repair facilities as of January 1 are exempt from property tax if by April 1 the parts and materials are physically attached or become part of watercraft undergoing major remodeling, renovation, conversion, or repair. The parts and materials are initially assessed, but assessors must cancel the assessment if documentary proof of qualification for exemption is provided prior to April 1. The value of watercraft under construction or undergoing major remodeling is also exempt, as described in Watercraft Locally Assessed (2.114).
PURPOSE:	To help Oregon shipyards compete with shipyards in other states.
WHO BENEFITS:	This exemption predates the full Inventory (2.015) exemption. Most, if not all, of the material exempted by this statute would probably be considered inventory. Assessors report no exempt value.
EVALUATION:	Not evaluated.

2.021 AIRCRAFT BEING REPAIRED

Oregon Statute: 308.559
Sunset Date: None
Year Enacted: 1995

2005–06 Assessed Value of Property Exempted: $0

	Loss	Shift
2005–07 Revenue Impact:	$0	$0
2007–09 Revenue Impact:	$0	$0

DESCRIPTION: Aircraft owned by an air transportation company are exempt from property tax during the time the aircraft are undergoing “major work.” Major work includes scheduled maintenance, repairs, renovation, and conversion in which the total labor expended for the work exceeds 10 hours.

The Oregon value of an airline company is normally determined by calculating the value of the entire company. The Oregon portion of that value is then determined based on an allocation formula that takes into account the number of Oregon departures, number of hours in Oregon, and the amount of Oregon cargo. This exemption reduces the number of hours an aircraft is in Oregon in the allocation formula, and thus reduces the Oregon property value for an airline doing aircraft repair in Oregon.

PURPOSE: To promote the aircraft repair industry in Oregon.

WHO BENEFITS: Airline companies that repair aircraft in Oregon are potential beneficiaries, although no such company is using this provision at the moment.

EVALUATION: This exemption was created at least partly to encourage the location of a major aircraft repair facility in Oregon. The prospective facility was to be managed by a firm named Pamcorp. However, despite the fact that buildings were built to house this activity, Pamcorp did not succeed in operating the facility and is no longer in business. In this respect, the exemption has not yet succeeded in achieving its desired result. The exemption has been used by Horizon Air and may in the future more fully achieve its original desired result. *[Evaluated by the Economic and Community Development Department.]*

2.022 RAILROAD CARS BEING REPAIRED

Oregon Statute: 308.665
Sunset Date: None
Year Enacted: 1973

2005-06 Assessed Value of Property Exempted: $0

	Loss	Shift
2005–07 Revenue Impact:	$0	$0
2007–09 Revenue Impact:	$0	$0

DESCRIPTION: Railroad cars owned by private car companies and undergoing “major work” are exempt from property taxation. “Major work” includes remodeling, renovation, conversion, or repairs if the total labor exceeds 10 hours. A railroad car is exempt from the time it awaits transportation to a repair facility to the time it is returned from a repair facility. Documentary proof of qualification for exemption must be furnished to the Department of Revenue.

PURPOSE: To promote the railroad car repair industry in Oregon.

WHO BENEFITS: Private railroad car companies are the potential beneficiaries, although no such company is using this provision at the moment.

EVALUATION: This expenditure may reduce the disadvantage to using Oregon sites for rail car repair compared to some other potential rail car repair sites in the United States where the rail cars being repaired may not be subject to property tax. This makes Oregon marginally more competitive with such areas. The expenditure would probably slightly increase the number of rail cars repaired in Oregon. *[Evaluated by the Economic and Community Development Department.]*

2.023 FEDERAL LAND UNDER RECREATION FACILITY

Oregon Statute: 307.182
Sunset Date: 6-30-12
Year Enacted: 1975

2005–06 Assessed Value of Property Exempted: $61.6 million

	Loss	Shift
2005–07 Revenue Impact:	$1,300,000	$300,000
2007–09 Revenue Impact:	$1,300,000	$300,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. This provision ensures that federal government land remains exempt from property tax when occupied and used by a commercial recreation facilities operator under a permit. Examples are ski resorts and lake marinas on federal land. Only the land is exempt. All real and personal property improvements are taxable to the taxpayer having possession of the property.

This exemption applies only to recreation facility land held under permit. Some recreation facility land is held under a lease and is taxable.

PURPOSE: To provide tax relief to compensate for the cost of permit fees. Twenty-five percent of the fees paid to the Forest Service is shared with counties.

WHO BENEFITS: The operators of recreational facilities that operate under permit on federal land benefit from this exemption.

EVALUATION: This expenditure achieves its purpose. Recreation areas that benefit from this legislation are on Forest Service land via a Special Use Permit. This permit, while long-term, is very restrictive and not at all like a typical private landlord-tenant arrangement. These restrictions make it very difficult to establish a value on the property. In addition, removal of the property tax exemption for recreation facilities on federal lands would subject these areas to some level of double taxation unless other adjustments were also made. *[Evaluated by the Economic and Community Development Department.]*

2.024 DEFENSE CONTRACTOR WITH FEDERAL PROPERTY

Oregon Statute: 307.065
Sunset Date: None
Year Enacted: 1965

2005–06 Assessed Value of Property Exempted: $0

	Loss	Shift
2005–07 Revenue Impact:	$0	$0
2007–09 Revenue Impact:	$0	$0

DESCRIPTION: Property that is owned by the federal government and is in the possession of a private contractor upon an agreement with an Armed Forces agency is exempt from property tax. The property must be in use under a federal defense or space contract to assemble or manufacture a product.

PURPOSE: To clarify that this property is not taxable because of its federal ownership status and to help promote the defense industry in Oregon.

WHO BENEFITS: Defense and space contractors are potential beneficiaries, although no such company is using this provision at the moment

EVALUATION: This expenditure appears to be consistent with the treatment of other federal property, since this property is titled to the federal government even though in the possession of a contractor. The exemption should provide some incentive for Oregon companies to pursue federal defense contracts. Given Oregon's minimal stature in receiving federal contracts, Oregon's companies could greatly increase their sales from such contracts without the concentration and dependency on federal contracts that has led to booms and busts in other parts of the country. *[Evaluated by the Economic and Community Development Department.]*

2.025 FEDERAL LAND UNDER SUMMER HOMES

Oregon Statutes: 307.183 and 307.184
Sunset Date: 6-30-12
Year Enacted: 1975

2005–06 Assessed Value of Property Exempted: $45.4 million

	Loss	Shift
2005–07 Revenue Impact:	$1,000,000	$200,000
2007–09 Revenue Impact:	$1,200,000	$200,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is consider taxable. However, the *land* under summer homes that is owned by the Forest Service or Bureau of Land Management and used by permit or lease is exempt from property tax. The summer home; other buildings or structures; and improvements to the land (water or septic systems, electric service, and landscaping) are all taxable to the lessee.

PURPOSE: To avoid the difficulty of valuing the property with its restrictions.

WHO BENEFITS: In 2004 the Forest Service reported 1,687 homesite permits in Oregon, totaling 616 acres in 15 counties. Fees paid to the Forest Service for these permits totaled about

$1,502,000. One quarter of this amount, or about $375,000, was shared with the counties.

EVALUATION: Not evaluated.

2.026 HOUSING AUTHORITY RENTAL UNITS

Oregon Statute: 307.092
Sunset Date: None
Year Enacted: 1937

2005–06 Assessed Value of Property Exempted: $644.8 million

	Loss	Shift
2005–07 Revenue Impact:	$19,900,000	$3,000,000
2007–09 Revenue Impact:	$22,200,000	$3,300,000

DESCRIPTION: Property that is owned or leased by housing authorities is exempt from all state and local taxes and special assessments. Property held in a partnership with private partners is also exempt so long as the housing authority is the general partner or manager of the property, and the property is used for housing low-income persons. Housing authorities are public corporations at the city or county level created under ORS 456.055. They provide affordable housing services to low-income individuals and families.

The housing authority must file an application with the county assessor to claim the exemption on property that it leases from an exempt owner. However, no application is required to claim the exemption if the housing authority owns the property or leases the property from a taxable owner.

PURPOSE: The exemption recognizes housing authority property as “public property used for essential public and governmental purposes” (ORS 307.092) and gives it the same exempt status as other public property. The exemption also facilitates authorities providing lower rents to low income renters.

WHO BENEFITS: In 2005–06, more than 1,600 properties rented units to low- or very low-income people, including the elderly, disabled, and single parents and their children. According to the Association of Oregon Housing Authorities, housing authorities in Oregon provide services to more than 92,000 people. The U.S. Department of Housing and Urban Development definition of very low income is those who earn 50 percent or less of median income. Low income is defined as those who earn 80 percent or less of median income.

IN LIEU: A housing authority can agree to make payments in lieu of tax payments for improvements, services, and facilities furnished by local governments, such as streets, lighting, water and sewer, but the payments cannot exceed estimated costs for these services.

EVALUATION: This expenditure achieves its purpose. Based on research, this statute was required in the beginning (in, or along with, the federal Housing Act of 1937. Oregon's first housing authority was chartered in 1938) by the federal government of the states that wanted to contract with the federal government for housing development dollars. Since then, the exemption has proven to be a critical component of housing authorities' ability to provide housing affordable to very low-income tenants. The exemption has been extensively used and heavily relied upon to allow housing authorities to provide more units of housing and units at more affordable rates to very low income tenants.

The exemption achieves affordable rents in the following two ways. First, approximately 50 percent of housing authority tenants pay a rent of 30 percent of their income. That is the maximum they can pay under federal law in public housing—that is, federally subsidized, housing authority owned housing. The balance of their rent is paid by the federal government through the housing authority. Tenant rent cannot be increased if the cost of their housing unit is increased. The benefit of the property tax exemption in these units is that the housing authorities can make more units available to a larger number of tenants than if there were no exemption.

Second, approximately 50 percent of the tenants live in housing owned by housing authorities but not subsidized by the old federal public housing subsidies. Instead, this housing has been financed through a mix of commercial loans and "off market" financing sources including federal low income housing tax credits, the Oregon Housing Fund, and the property tax exemption. In these housing developments, rent is not restricted to 30 percent of income. Even though the tenants are low income, their rents are directly related to construction and operating costs. The property tax exemption is a substantial part of making these units affordable to low-income households.

The people who benefit from this expenditure have average household incomes of approximately $8,000 annually, and many have little or no income at all. Clearly, fewer of them would have affordable housing, and some no housing at all, without this exemption. This exemption successfully achieves its purpose. The process for providing the exemption is very straightforward and easily administered; upon demonstration of a housing authority's qualifying relationship to a given piece of property, the exemption is granted. It is unlikely that local jurisdictions would prefer to collect taxes and use them in a direct spending program to achieve the low-income housing development that this exemption make possible. The exemption is also the most fiscally effective means of achieving its purpose. *[Evaluated by the Housing and Community Services Department.]*

2.027 NONPROFIT ELDERLY HOUSING STATE FUNDED

Oregon Statute: 307.242
Sunset Date: None
Year Enacted: 1977

2005–06 Assessed Value of Property Exempted: $75.4 million

	Total Paid by State
2005–07 Revenue Impact:	$2,600,000
2007–09 Revenue Impact:	$3,100,000

DESCRIPTION: Homes for the elderly built or acquired after January 1, 1977, by private nonprofit corporations (defined in ORS 307.375) that receive subsidies under certain federal and state housing programs are exempt from property taxation. Only the land and improvement value, not personal property, may be exempted. The corporation may not charge more than one month's rent as a "move-in" fee or deposit, and rents must reflect the property tax savings. The occupants do not qualify for the veteran's exemption or homestead tax relief. If the corporation receives a state subsidy, any property added after January 1, 1990, is not eligible for exemption.

Any taxes exempted under this provision are billed to the state Department of Revenue. Funds to pay these taxes are appropriated as part of the Elderly Rental Assistance program. If the Elderly Rental Assistance program appropriation is not sufficient to pay the liabilities in full, distributions to both the Elderly Rental Assistance program participants and the counties for nonprofit elderly housing property taxes exempted are prorated to the appropriation amount. In the event that this proration is necessary, it will result in a tax loss to the taxing districts. Because the state would normally anticipate paying the full amount of tax, there is no loss or shift to other taxpayers. The revenue impact reflects the amount of liability the exemption places against the Elderly Rental Assistance appropriation.

A claim must be filed with the county assessor. The assessor assesses the property as if no exemption existed. However, the taxes are paid by the state.

PURPOSE: To "assist private nonprofit corporations to provide permanent housing, recreational and social facilities, and care to elderly persons" (ORS 307.241).

WHO BENEFITS: The state paid 2005–06 property taxes of about $1.3 million for 43 homes. Homes are in 17 counties with 12 in Multnomah County and nine in Clackamas County.

EVALUATION: Generally, this expenditure appears to achieve its purpose. The effect of the state-funded tax relief is to reduce housing project operating expenses, thereby reducing the rents to project occupants. Tenants otherwise would have to support the property taxes through the monthly rent they pay. The average monthly rent reduction is about $40 per unit. This may have been significant figure when the program was conceived, but represents less than 10 percent of current comparable apartment (only) rent or approximately 2 percent of assisted living monthly costs.

Because eligible project sponsorship or ownership is limited to nonprofit corporations, it is assumed the full benefit of the tax relief is passed on to the project tenants. This assumption cannot be confirmed as no mechanism is in place to monitor project operating budgets to ensure this result.

It is also assumed that the elderly households that reside in eligible housing projects have limited incomes that warrant the benefit of this rent reduction. There is no review that confirms this assumption.

The current annual application process is very time-consuming and involves a minimum of six separate steps each year. The administrative steps for county government include: 1) mail applications to each qualifying nonprofit, 2) verify information received from each applicant, 3) provide a copy of the information to the Department of Revenue, 4) notify applicant of approval/denial, 5) send tax statements and certification letter to the Department of Revenue for payment, and 6) notify applicant that the taxes have been paid. An alternative to the annual application could be a statement of compliance from the qualifying nonprofit, if verification is required.

An alternate means to provide an equal benefit to the project residents would be a rent subsidy program. Administration of a rent subsidy program would be more administratively burdensome than the existing subsidy, however.

A direct property tax exemption may be a more efficient means to provide a like benefit to the project tenants. However, local taxing districts (such as cities and schools) would not receive compensating income if a direct property tax exemption were implemented in lieu of the tax relief program. This revenue loss would be relatively small when considered in the context of the overall scope of exemptions and special assessments. *[Evaluated by the Housing and Community Services Department.]*

2.028 FARM LABOR HOUSING AND DAY CARE CENTERS

Oregon Statute: 307.485
Sunset Date: None
Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: $17.5 million

	Loss	Shift
2005–07 Revenue Impact:	$400,000	$100,000
2007–09 Revenue Impact:	$400,000	$100,000

DESCRIPTION: Eligible camps for farm laborers and eligible day care centers operated in conjunction with those camps are exempt from property tax. An eligible camp is a place where housing, sleeping places, or camping grounds are owned and operated by a nonprofit corporation in compliance with applicable health codes. An eligible child care facility is certified by the Child Care Division of the Employment Department, and operated by a nonprofit corporation in conjunction with an eligible farm labor camp. Housing can be provided to agricultural workers not currently employed if employed when work is available. Housing can also be for workers' families. An eligible day care center must be owned or operated by a nonprofit corporation and operated in conjunction with an eligible farm labor camp.

PURPOSE: To encourage provision of low-cost housing and day care for farm workers by nonprofit corporations.

WHO BENEFITS: Nonprofit owners and operators of farm labor housing and associated day care centers. In 2005–06 counties reported 40 exempt farm labor housing properties in six counties, most are located in Umatilla or Washington county.

IN LIEU: In lieu of property taxes, owners of exempt farm labor housing must make tax payments to the county treasurer equal to 10 percent of yearly net rentals. A claim for exemption must be made each year with the county assessor. The assessor, in turn, forwards applications to the Department of Revenue, the State Fire Marshal, Children's Services Division, and the local health officer for approval. A health inspection of the housing must be made each year.

Nonprofit corporations operating farm labor housing do not usually have a net income after depreciation, and generally make no in lieu payment. When payments are made, they are usually small. Any funds collected are distributed to taxing districts where the exempt property is located.

EVALUATION: This expenditure achieves its purpose. Without the tax exemption, the associated day care facilities may not be built or rehabilitated at all. Assuming that the difference between (a) the amount of property taxes that would be owed without this statute and (b) the amount of the payment in lieu of taxes that in fact is paid under the statute is passed along to the residents, then the benefit of the tax expenditure is easily calculated by the amount of the reduced rent or day care cost.

While an administrative improvement would be to eliminate the requirement that an application be filed every year, it is probably the trigger mechanism needed for the annual health and safety inspections. *[Evaluated by the Housing and Community Services Department.]*

2.029 FAIRGROUND LEASED STORAGE SPACE

Oregon Statute: 307.110(3)(d)(e)
Sunset Date: None
Year Enacted: 1987

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. This tax expenditure provides an exception to that general rule. County or state fairground land or buildings utilized for horse stalls or for storage of recreational vehicles or farm machinery and equipment are exempt from property tax.

PURPOSE: To promote fairs by allowing fair boards to earn more revenue throughout the off-season to support fairs. Boards can charge higher rent because the renter pays no property taxes.

WHO BENEFITS: All thirty-six counties in Oregon hold county fairs, thirty-four counties have fairgrounds and most of those benefit from this exemption. The State Fair does not have any leased property that is exempt under this statute. While leasing storage space for livestock and equipment at fairgrounds is common, the duration of the leases are short enough and the sizes of space being leased small enough to make the revenue impact minimal.

EVALUATION: Not evaluated.

2.030 INDUSTRY APPRENTICESHIP/TRAINING TRUST

Oregon Statute: 307.580
Sunset Date: None
Year Enacted: 1983

2005–06 Assessed Value of Property Exempted: $14.9 million

	Loss	Shift
2005–07 Revenue Impact:	$400,000	$100,000
2007–09 Revenue Impact:	$400,000	$100,000

DESCRIPTION: All real and personal property owned, being purchased, or leased by an industry apprenticeship or training trust is exempt from property taxation if the industry apprenticeship or training trust meets all of the following conditions:

- the trust is organized only for assisting or implementing training programs according to ORS Chapter 660, Apprentices and Trainees,
- the property is used exclusively and actively in training,
- the trust is exempt from federal income taxes, and
- the trust does not discriminate.

The organization must file an application with the county assessor to claim the exemption.

PURPOSE: To provide equity between training trusts and other private schools. Trusts cannot qualify for an exemption under other statutes because they are not incorporated and are prevented from doing so by federal regulation. Many skilled labor occupations require an apprenticeship period in order to obtain a license in Oregon, and apprenticeship trusts provide training often unavailable at traditional schools.

WHO BENEFITS: The exemption lowers the cost of operation to the apprenticeship trusts and presumably the costs of the students who attend.

EVALUATION: Not evaluated.

2.031 FOOD PROCESSING EQUIPMENT

Oregon Statute: 307.455
Sunset Date: 6-30-11
Year Enacted: 2005 (SB 479C)

2005–06 Assessed Value of Property Exempted: $0 million ($69.2 million in 2006-07)

	Loss	Shift
2005–07 Revenue Impact:	$900,000	$200,000
2007–09 Revenue Impact:	$1,900,000	$300,000

DESCRIPTION: Beginning with tax year 2006-07, newly acquired machinery or equipment used by food processing businesses is exempt from property taxation for five years. The machinery or equipment may be either new or used, as long as it is newly acquired by the food processor.

Food processing businesses are those that freeze, can, dehydrate, concentrate, preserve, process or repack fruit, vegetables, nuts legumes or seafood in any procedure that occurs prior to sale by the processor. Producers of alcoholic beverages are ineligible. Qualified machinery is certified by the Oregon Department of Agriculture.

PURPOSE: "The Legislative Assembly declares that a property tax exemption for qualified real property machinery and equipment encourages continued operation and expansion of the food processing industry in this state." (ORS 307.453).

WHO BENEFITS: Food processors that acquire machinery and equipment.

EVALUATION: Not evaluated.

2.032 FARM MACHINERY AND EQUIPMENT (PROPERTY TAX)

Oregon Statute: 307.394
Sunset Date: None
Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: $2.5 billion

	Loss	Shift
2005–07 Revenue Impact:	$53,200,000	$10,700,000
2007–09 Revenue Impact:	$55,600,000	$11,100,000

DESCRIPTION: Personal property machinery and equipment used in farm operations involving crops, livestock, poultry, fur-bearing animals, bees, dairying, animal husbandry, or other agricultural or horticultural products are exempt from local property taxation.

The revenue impacts of the exemptions for Center Pivot Irrigation Equipment (2.040) and Other Farm/Aquaculture/Egg Equipment (2.041) are included here.

PURPOSE: To improve the financial viability of farming and ease tax administration.

WHO BENEFITS: All farmers who own machinery and equipment receive benefits from this provision.

EVALUATION: This expenditure appears to be achieving its purpose. Agricultural machinery is extremely expensive, and farmers spend more on machinery per worker than any other industry. Profit margins are very tight and prices fluctuate dramatically from year to year. Placing a fixed tax on equipment that may or may not bring a return to the owner in any given year creates a financial burden on the producers.

Arguably, many small producers could not afford a tax on personal property, and the costs of filing personal property tax returns would be an additional burden. The current tax exemption appears a more appropriate treatment of this particular situation than direct spending. Producers would likely argue that it is working as is and should not be altered. [Evaluated by the Department of Agriculture.]

2.033 MOBILE FIELD INCINERATORS

Oregon Statute: 307.390
Sunset Date: None
Year Enacted: 1971

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: Mobile field incinerators owned by farmers and used exclusively for sanitizing grass seed fields by means other than open-field burning are exempt from property tax. Incinerators must be purchased within five years after they are certified by the Department of Environmental Quality. If these incinerators are used at the field site in preparing the soil for farm purposes, these would be exempted under Farm Machinery and Equipment (Property Tax) (2.032).

The Alternatives to Field Burning tax expenditure (1.172) provides an Oregon pollution control income tax credit for up to 50 percent of the acquisition costs of equipment and facilities used for alternatives to field burning of grass seed and cereal grain straw. New projects may qualify for only up to a 35 percent credit.

PURPOSE: To encourage pollution control by the use of mobile field incinerators in place of open field burning of grass straw.

WHO BENEFITS: Farmers with mobile field incinerators would receive the benefit. However, these incinerators are not commonly used.

EVALUATION: This expenditure is not achieving the purpose for which it was intended. The current technology of mobile field incinerators appears too expensive to be a viable alternative to other approaches used to sanitize grass seed fields. Barring a major technological advance that reduces its cost, the use of mobile field incinerators is likely to cease completely. *[Evaluated by the Department of Agriculture.]*

2.034 CROPS, PLANTS, AND FRUIT TREES

Oregon Statute: 307.320
Sunset Date: None
Year Enacted: 1957

2005-06 Assessed Value of Property Exempted: $788 million

	Loss	Shift
2005–07 Revenue Impact:	$16,700,000	$3,300,000
2007–09 Revenue Impact:	$17,900,000	$3,600,000

DESCRIPTION: Deciduous trees, shrubs, plants, crops, cultured Christmas trees, and cultivated hardwood trees growing on agricultural land are exempt from local property taxation. When crops and plants are harvested and unsold as of the assessment date, they are treated as inventory subject to the exemption described in Inventory (2.015). Agricultural products held for use in farming operations are exempt as described in Agricultural Products Held by the Farmer (2.035).

Property Tax
Full Exemption

PURPOSE: To improve the financial viability of agriculture by reducing the property tax burden and to ease administration by eliminating the filing of personal property tax returns for farmers.

WHO BENEFITS: Owners of deciduous trees, shrubs, plants, crops, cultured Christmas trees, and cultivated hardwood trees growing on agricultural land. Oregon has about 3 million acres of harvested cropland (excluding Christmas trees). About two thirds of that acreage is used for production of grains, hay, or forage.

EVALUATION: This exemption is accomplishing its purpose. Commodities of this nature represent standing crop inventory and may be, at any given time, unmarketable by industry standards. Given the vagaries of weather, etc., they may never reach marketability.

It is our view that this expenditure is the most fiscally effective means of achieving its purpose. *[Evaluated by the Department of Agriculture.]*

2.035 AGRICULTURAL PRODUCTS HELD BY THE FARMER

Oregon Statute: 307.325
Sunset Date: None
Year Enacted: 1965, Modified in 2005 (HB 2581)

2005–06 Assessed Value of Property Exempted: $10.2 million

	Loss	Shift
2005–07 Revenue Impact:	$200,000	Less than $50,000
2007–09 Revenue Impact:	$200,000	Less than $50,000

DESCRIPTION: Agricultural products in the possession of the farmer who produced them or acquired them for use in the farm operation are exempt from property tax. These products are grain; seed; hay; fruit; vegetables; nuts; hops; wool; fish; livestock; fur-bearing animals; bees; poultry; butter; cheese; evaporated, condensed or concentrated milk; mint; bivalve mollusks; and vermiculture supplies and products.

Most products held by farmers are considered inventories because they are being held for ultimate sale and are exempt under the inventory exemption of the property tax. This provision exempts those products not covered by the inventory exemption because they are held for use on the farm rather than for ultimate sale.

PURPOSE: To eliminate the burden of enumerating livestock and crop inventories and to improve the financial viability of farming.

WHO BENEFITS: Most of the exempt value for this expenditure is for cattle and calves. About 17,000 farms in Oregon raise some cattle. It also benefits farmers who primarily hold products produced for their own use. This includes those who raise hay and other feed for their own animals.

EVALUATION: This exemption is accomplishing its purpose. It reduces the tax burden on farming, and it makes the treatment of farm products consistent with inventories in other industries. Given the vagaries of the weather, some of these products may never reach maturity and harvest. In addition, it would be extremely difficult to place a value on standing crops because, at any given time, different crops will be at different stages of maturity. *[Evaluated by the Department of Agriculture.]*

2.036 NURSERY STOCK

Oregon Statute: 307.315
Sunset Date: None
Year Enacted: 1971

2005–06 Assessed Value of Property Exempted: $311.5 million

	Loss	Shift
2005–07 Revenue Impact:	$6,600,000	$1,300,000
2007–09 Revenue Impact:	$7,100,000	$1,400,000

DESCRIPTION: Nursery stock in the hands of growers or wholesalers is exempt from local property taxation. The stock can be bare root, balled, in containers, or in or upon the ground. Nursery stock includes ornamental plants, trees, and shrubs grown or kept for propagation or sale as defined in ORS 571.005(5).

PURPOSE: To improve the financial viability of the nursery industry by reducing the property tax burden.

WHO BENEFITS: Farms in Oregon growing some nursery crops number about 2,000. Most of these farms are in Western Oregon and are concentrated in the Willamette Valley.

EVALUATION: This tax expenditure is accomplishing its purpose. The exemption of nursery stock is consistent with the exemption provided for other farm commodities [Crops, Plants, and Fruit Trees (2.034)] and with the exemption of inventories in nonagricultural industries [Inventory (2.015)]. Any change, such as the elimination of this exemption, resulting in an increase in market price would reduce the competitiveness of Oregon-grown nursery stock in the national and international marketplaces. The current tax expenditure is the most effective means of achieving this purpose. *[Evaluated by the Department of Agriculture.]*

2.037 LEASED PUBLIC FARMING AND GRAZING LAND

Oregon Statute: 307.110(3)(b)
Sunset Date: None
Year Enacted: 1971

2005-06 Assessed Value of Property Exempted: Included in State and Local Property (2.070)

	Loss	Shift
2005–07 Revenue Impact:	Included in 2.070	Included in 2.070
2007–09 Revenue Impact:	Included in 2.070	Included in 2.070

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, state or local government land leased or rented for agricultural or grazing use by persons who do not pay rent in cash or as a share of the crop is exempt from local property taxation. In some cases, the lessee performs a service in return for farming or grazing rights. For example, a farmer might use public land for agricultural purposes, and in return, agree to keep other state or locally owned land mowed (Chapter 431, 1971).

PURPOSE: To provide property tax relief to farmers and livestock owners, and to avoid the difficulty of valuing the property with its restrictions.

WHO BENEFITS: Farmers and ranchers who lease state and local land. The expenditure also benefits state and local governments, who in exchange receive land maintenance, which may be more valuable than the potential rent and other management issues associated with small, isolated parcels.

EVALUATION: This expenditure effectively achieves its purpose. It produces benefits to local communities through the increased economic activities associated with the livestock industry. The increased economic activities provide additional tax resources for Eastern Oregon counties, and the grazing leases provide revenue to the School Trust Fund.

Without this expenditure, it is likely that costs would exceed benefits due to the substantial costs needed to administer the lands in comparison to the returns to the state. Additionally, this exemption may avoid an issue of "double taxation" since part of the grazing lease income to the state is shared with local governments. *[Evaluated by the Department of Agriculture.]*

2.038 LEASED FEDERAL GRAZING LAND

Oregon Statute: 307.060
Sunset Date: None
Year Enacted: 1961

2005–06 Assessed Value of Property Exempted: Included in Federal Property (2.085)

	Loss	Shift
2005–07 Revenue Impact:	Included in 2.085	Included in 2.085
2007–09 Revenue Impact:	Included in 2.085	Included in 2.085

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, federal land leased primarily for agricultural purposes from a federal wildlife conservation agency or used primarily for livestock grazing is exempt from local property taxation. The Bureau of Land Management and the Forest Service establish grazing fees based on animal unit months (AUM) rather than acres. An animal unit month is defined as the amount of forage needed to sustain one cow for one month. Part of the fee income paid to the federal government is shared with local governments.

PURPOSE: To provide property tax relief to livestock owners and to avoid the difficulty of valuing the property with its restrictions.

WHO BENEFITS: Farmers and ranchers who lease federal land for grazing. For 2001, the Bureau of Land Management reported 1,105 permits or leases for 757,675 AUMs in Oregon.

EVALUATION: This expenditure appears to be achieving its purpose. It provides direct benefits to livestock owners; and without the expenditure the administrative costs of taxing the property and of managing it would likely exceed the benefits. *[Evaluated by the Department of Agriculture.]*

2.039 OYSTER GROWING ON STATE LAND

Oregon Statute: 622.290
Sunset Date: None
Year Enacted: 1969

2005–06 Assessed Value of Property Exempted: $1.3 million

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, state land being used for the private cultivation of oysters is exempt from local property taxation. Annual cultivation fees and use taxes are in lieu of property taxes and lease fees. The cultivation fee is $4 per acre, and the use tax is $0.10 cents per gallon if the oysters are sold shucked or $0.10 cents per bushel if they are sold in the shell. The value of oyster production on these lands was an estimated $1.2 million in 2003. The total acreage of submerged state estuary land has been rather stable for the past five years. A slight increase of nearly 50 acres has occurred, all in Netarts Bay. Production of shucked oysters harvested was about 34,000 gallons in 2003, up over 14 percent from the previous year.

PURPOSE: To encourage oyster production and to avoid the difficulty of valuing the property with its restrictions.

WHO BENEFITS: Oyster growers who raise oysters on state-owned land. State land is leased for oyster growing in Coos, Douglas, Lincoln, and Tillamook counties. Commercial oyster-lease holders range from individuals with only a few acres under lease to large companies with several hundred to a thousand acres.

IN LIEU: The Department of Agriculture collected $11,405 in fees in 2003. The in lieu fees were for leasing 3,655 acres and producing 34,071 total gallons of oysters. The fees support the department's oversight of the oyster leasing program.

EVALUATION: The tax expenditure seems to be effective in achieving its purpose. The expenditure is particularly helpful to growers who are just getting started in the business and to those with small lease holdings. It takes several grow-out years before oysters can be harvested. The tax expenditure helps make it possible for growers to make it through the unproductive years. *[Evaluated by the Department of Agriculture.]*

2.040 CENTER PIVOT IRRIGATION EQUIPMENT

Oregon Statute: 307.398
Sunset Date: None
Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: Incl. in Farm Machinery and Equipment (2.032)

	Loss	Shift
2005–07 Revenue Impact:	Included in 2.032	Included in 2.032
2007–09 Revenue Impact:	Included in 2.032	Included in 2.032

DESCRIPTION: Center pivot irrigation equipment used in farm operations is exempt from property taxation. The revenue impact for this tax expenditure is contained in Farm Machinery and Equipment (Property Tax) (2.032).

PURPOSE: To improve the financial viability of farming and ease tax administration.

WHO BENEFITS: All farmers who own center pivot irrigation equipment receive benefits from this provision.

EVALUATION: See evaluation for Farm Machinery and Equipment (2.032). *[Evaluated by the Department of Agriculture.]*

2.041 OTHER FARM / AQUACULTURE / EGG EQUIPMENT

Oregon Statute: 307.397
Sunset Date: None
Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: Incl. in Farm Machinery and Equipment (2.032)

	Loss	Shift
2005–07 Revenue Impact:	Included in 2.032	Included in 2.032
2007–09 Revenue Impact:	Included in 2.032	Included in 2.032

DESCRIPTION: Certain machinery and equipment used in farm operations is exempt from property taxation. Under this section of statute the following are exempt:

- frost control systems,
- trellises for hops and other agricultural purposes,
- hop harvesting equipment,
- in-water racks and other equipment for raising bivalve mollusks, and
- equipment used in production and preparation of eggs for market.

The revenue impact for this provision is included under Farm Machinery and Equipment (Property Tax) (2.032).

PURPOSE: To improve the financial viability of farming and ease tax administration.

WHO BENEFITS: All farmers who own the specified equipment receive benefits from this provision.

EVALUATION: See evaluation for Farm Machinery and Equipment (2.032). *[Evaluated by the Department of Agriculture.]*

2.042 FIELD BURNING SMOKE MANAGEMENT EQUIPMENT

Oregon Statute: 307.391
Sunset Date: None
Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: Radio communications equipment, meteorological equipment, or other tangible personal property used in connection with the operation of the field burning smoke management program (administered by the Oregon Department of Agriculture) is exempt from property taxation. The goal of the smoke management program is to offer maximum opportunities for open field burning, propane flaming, and stack burning with minimal smoke impacts on the public. The field burning equipment itself would be exempt under Farm Machinery and Equipment (Property Tax) (2.032) as long as the burning was conducted for the purpose of soil maintenance for farming use.

PURPOSE: To reduce the cost of ownership of equipment used in conjunction with the field burning smoke management program.

WHO BENEFITS: All farmers who own the specified equipment receive benefits from this provision. Roughly 160 farmers burn fields; and at a minimum they are required to have a radio to receive burning information.

EVALUATION: See evaluation for Farm Machinery and Equipment (2.032). *[Evaluated by the Department of Agriculture.]*

2.043 NONPROFIT SEWAGE TREATMENT FACILITIES

Oregon Statute: 307.118
Sunset Date: None
Year Enacted: 1997

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: An exemption from property taxes is allowed for wastewater treatment, sewage treatment, and related property owned by a nonprofit corporation engaged solely in wastewater treatment and sewage treatment facility applications. It applies to tax years beginning on or after July 1, 1996. The exemption refunds and abates any taxes paid for the 1996 and 1997 tax years, and provides an exemption for future tax years. The nonprofit corporation must have been in existence as of January 1, 1997, and the corporation and plant must have been in operation on July 1, 1997. The exemption was created for the Mapleton Commercial Area Owners' Association in Lane County, and it is unlikely any other facilities qualify for the exemption.

PURPOSE: To assist nonprofit sewage treatment facilities.

WHO BENEFITS: There appears to be one entity in the state qualified for this tax relief: the Mapleton Commercial Area Owners' Association. The beneficiaries of this legislation are the owners of the homes and businesses that are members of the Mapleton Commercial Area Owners' Association.

EVALUATION: This legislation provides an economic benefit for communities that elect to manage their wastewater treatment needs through formation of a nonprofit corporation. This form of organization is rare; the law covered one such organization when it was passed. Because the existing law does not cover other privately owned community sewer systems in the state, such as trailer and recreational vehicle parks, it has limited applicability to Oregon businesses. *[Evaluated by the Department of Environmental Quality.]*

2.044 PROPERTY USED FOR GOLF COURSE AND EFFLUENT

Oregon Statutes: Note after 307.118
Sunset Date: 6-30-21
Year Enacted: 2001

2005-06 Assessed Value of Property Exempted: $2.9 million

	Loss	Shift
2005-07 Revenue Impact	$100,000	Less than $50,000
2007-09 Revenue Impact	$100,000	Less than $50,000

DESCRIPTION: This property tax exemption is for a nonprofit corporation that leases land from a municipality and uses the land both as a golf course and for the discharge of wastewater or sewage effluent. This exemption originally applied only to land, but the 2003 Legislature extended the exemption to include buildings or other improvements. It allows any unpaid property taxes and interest due be waived beginning on or after July 1, 1998. An application must have been filed with the county assessor for this tax exemption on or before July 1, 2002.

PURPOSE: To allow for property tax exemptions for wastewater or sewage treatment plants that also include golf course land leased from a municipality. Formerly, the nonprofit corporation had to own the wastewater treatment facility.

WHO BENEFITS: Two golf courses benefit from this exemption. One of the golf courses is in Douglas County; the other is in Deschutes County.

EVALUATION: Not evaluated.

2.045 RIPARIAN HABITAT LAND

Oregon Statute: 308A.362
Sunset Date: None
Year Enacted: 1981

2005-06 Assessed Value of Property Exempted: $4.1 million

	Loss	Shift
2005–07 Revenue Impact:	$100,000	Less than $50,000
2007–09 Revenue Impact:	$100,000	Less than $50,000

DESCRIPTION: Land designated as riparian land by the State Department of Fish and Wildlife is exempt from property taxation. Riparian land is privately-owned stream beds and the land under adjacent vegetation that is influenced by water, but which does not extend more than 100 feet from the stream bank. Riparian lands zoned as forest or agricultural and range lands in compliance with statewide planning goals and located outside urban growth boundaries may qualify. In addition, lands that were outside an urban growth boundary (UGB) and zoned as forest or agricultural (including range land) as of July 1, 1997, but are no longer outside an UGB or so zoned also may qualify. However, the landowner must apply for riparian designation within five years of the change. The Department of Fish and Wildlife can designate land as riparian habitat land if the owner has developed and implemented a plan for continued protection of the land using approved rehabilitation techniques. The department cannot approve more than 200 miles (increased from 100 miles in 1997) of private stream bank in any one county per year.

The exemption continues until withdrawn by the owner or use is incompatible with riparian use. Upon withdrawal or disqualification, an additional tax equal to the sum of the tax benefit for each year exempt (up to five years) is due.

The exempt value is based on farm use assessed value as the alternative to riparian exemption. When land is specially assessed as farm, forest, or open space before riparian designation, any additional tax for a change in designation to riparian is abated.

PURPOSE: To “prevent the forced conversion of riparian environments to intensive uses as a result of economic pressures caused by the assessment....at values incompatible with their protection as riparian lands...” (ORS 308A.353).

WHO BENEFITS: Owners of riparian land that has been designated by the Department of Fish and Wildlife.

As of July 2006, the Department of Fish and Wildlife had enrolled 1,269.41 acres in the program along roughly 91 miles of streams. One hundred fifty-eight landowners participated as of June 2006.

EVALUATION: This expenditure, as amended in Oregon Laws 1997, Chapter 811, Section 2, may be more effective than it was previously. However, the usage and related expenditure data are not conclusive.

With the 1997 statute changes and increased efforts to save Oregon salmon runs, the Riparian Habitat Land Exemption has become more widely used, but a number of features of the provision may limit its effectiveness. First, the land that qualifies for the exemption is already taxed at relatively low levels as farm or forest land, so the exemption provides a relatively small reduction in taxes. Second, the program limits the amount of new riparian land that can be certified annually prior to July 1, 2004, to no more than 200 miles of stream bank per county. Removing the latter restriction and modifying the provisions to allow for larger tax reductions could make the program more effective but at a higher cost. The 2001 legislative change to allow participation by cities could significantly increase participation in the program. This has not occurred however; as none of the cities and counties have adopted enabling ordinances. *[Evaluated by the Department of Fish and Wildlife.]*

2.046 ENVIRONMENTALLY SENSITIVE LOGGING EQUIPMENT

Oregon Statute: 307.827 and 307.831
Sunset Date: 6-30-12
Year Enacted: 1999, Sunset extended in 2003 (HB 2372)

2005–06 Assessed Value of Property Exempted: $105.7 million

	Loss	Shift
2005–07 Revenue Impact:	$2,200,000	$400,000
2007–09 Revenue Impact:	$2,300,000	$500,000

DESCRIPTION: All skyline and swing yarders that are capable of full log suspension are exempt from property taxation. In addition, other environmentally sensitive logging equipment may be exempt for at least five years provided that it was originally manufactured not more than eight years before the assessment date for the tax year in which the exemption is claimed. Property exempt under this provision includes machinery and equipment that is:

- used in logging or forest management operations,
- specifically designed for activities related to water quality or fish and wildlife habitat protection in the forest, or
- an excavator used in logging road maintenance, reconstruction or improvements, including the closing or obliterating of existing forest roads.

PURPOSE: "…to facilitate the transition of older logging equipment to newer equipment designed and manufactured to be as environmentally sensitive as current technology can provide, consistent with the need to match the equipment to the specifics of the site being harvested" (ORS 307.824).

WHO BENEFITS: Loggers who switch to more environmentally friendly logging equipment. In 2005-06 there were 475 exemptions in 20 counties.

EVALUATION: The effectiveness of this exemption has not been evaluated because its potential benefits to fish habitat are indirect. Yet log suspension in riparian zones, less ground and soil compaction and less sedimentation provide immediate improvements to aquatic habitat that fish depend on. The level of habitat improvement is expected to increase in proportion to the extent that the use of environmentally sensitive equipment replaces the use of less sensitive methods. *[Evaluated by the Department of Fish and Wildlife.]*

2.047 CRAB POTS

Oregon Statute: 508.270
Sunset Date: None
Year Enacted: 1969

2005-06 Assessed Value of Property Exempted: $11.8 million

	Loss	Shift
2005–07 Revenue Impact:	$300,000	$100,000
2007–09 Revenue Impact:	$300,000	$100,000

DESCRIPTION: Crab pots used by an owner with a commercial fishing license used with a commercially licensed boat are exempt from property tax. The value of the crab pots is entered on the tax roll, but the assessment is canceled if proof of the required licensing is furnished to the assessor by August 1 of the assessment year.

PURPOSE: To provide tax relief to crab fishing operations. The exemption makes the treatment of crab fishing operations more consistent with those of other types of fishing, where the fishing gear is considered an integral part of the fishing vessel and taxed at 4 percent of value.

WHO BENEFITS: About 200,000 commercial crab pots are used in Oregon coastal counties. The number of pots utilized in the fishery will decrease due to crab pot limits that will be implemented during the 2006-2007 season. Individuals will be limited to one of three tiers numbering 200, 300 or 500 depending on their history in the fishery. The maximum number of pots that can be used in the fishery will decrease to approximately 150,000. Noncommercial crab pots are exempt as Personal Property for Personal Use (2.068).

EVALUATION: This expenditure has effectively achieved its purpose. It provides tax relief to crab fishing operations, and it makes the property tax treatment of crabbing operations consistent with that of other types of fishing. *[Evaluated by the Department of Fish and Wildlife.]*

2.048 FEDERAL STANDING TIMBER UNDER CONTRACT

Oregon Statute: 307.050
Sunset Date: None
Year Enacted: 1965

2005–06 Assessed Value of Property Exempted: $274 million

	Loss	Shift
2005–07 Revenue Impact:	$5,600,000	$1,100,000
2007–09 Revenue Impact:	$5,400,000	$1,100,000

DESCRIPTION: In general, when public property is held under contract of sale to a private individual or business, it is considered taxable. However, federal standing timber is exempt from property tax even if held under a contract of sale. The volume of federal timber under contract was roughly 940 million board feet in 2003.

Property Tax
Full Exemption

PURPOSE: Taxing timber under contract would be contrary to the tax treatment of private standing timber in Oregon, which under current law is treated as a crop, not as real property.

WHO BENEFITS: Companies buying federal standing timber for harvest. This includes both large and small companies that either do not have private timber supplies or who supplement their own supplies with federal timber.

EVALUATION: This expenditure is effective in achieving its purpose. It makes the treatment of federal timber under contract consistent with that of other standing timber. *[Evaluated by the State Forestry Department.]*

2.049 STATE AND LOCAL STANDING TIMBER UNDER CONTRACT

Oregon Statute: 307.100
Sunset Date: None
Year Enacted: 1965

2005-06 Assessed Value of Property Exempted: $111 million

	Loss	Shift
2005–07 Revenue Impact:	$2,300,000	$500,000
2007–09 Revenue Impact:	$2,300,000	$500,000

DESCRIPTION: In general, when public property is held under contract of sale to a private individual or business, it is considered taxable. However, state or local government standing timber is exempt from property taxation even if held under a contract of sale. The volume of state timber under contract was about 339 million board feet in 2005. The volume of local timber under contract is unknown but is thought to be small.

PURPOSE: To treat timber under contract like other private standing timber in Oregon, which under current law is treated as a crop, not as real property.

WHO BENEFITS: The state of Oregon and the counties that own standing timber benefit. Receipts from Board of Forestry timber sales are distributed back to the counties and serve as an offset, reducing the need for more state General Funds to go to the counties for education. On Common School Lands, interest is distributed to counties from an account that grows as resources (mainly timber) are sold from these lands.

EVALUATION: This expenditure is effective in achieving its purpose. It makes the treatment of state and local timber under contract consistent with that of other standing timber. *[Evaluated by the State Forestry Department.]*

2.050 WESTERN PRIVATE STANDING TIMBER

Oregon Statute: 321.272
Sunset Date: None
Year Enacted: 1977

2005–06 Assessed Value of Property Exempted: $20.3 billion

	Loss	Shift
2005–07 Revenue Impact:	$399,300,000	$85,200,000
2007–09 Revenue Impact:	$415,000,000	$88,500,000

DESCRIPTION: Privately owned standing timber in Western Oregon is exempt from local property taxes.

PURPOSE: To improve the financial viability of timber production by eliminating the property tax burden.

WHO BENEFITS: Private timber owners benefit directly.

EVALUATION: Prior to 1977, both land and timber were taxed as property. In some cases this led to premature harvesting to lower property tax burden. To encourage holding timber to longer rotation ages, the property tax on the value of the timber was eliminated, but a yield tax on timber harvest was retained. In 1993, in recognition of the now crop nature of growing timber and the substantial investment it requires, the tax on the crop (privilege tax) was eliminated.

The purpose of holding off on premature harvests of private timber appears to be successful. There are indications that timber harvests average approximately 50 years, and that the total private timber harvest, while declining very slightly since the late 1950s, has been essentially at sustainable levels through the past decade.

Information is lacking on the effectiveness of other methods of discouraging premature timber harvests. Regulatory methods would likely be exceedingly expensive to administer, and variable tax rates would require nearly confiscatory levels for young timber in order to be effective. *[Evaluated by the State Forestry Department.]*

2.051 EASTERN PRIVATE STANDING TIMBER

Oregon Statute: 321.829
Sunset Date: None
Year Enacted: 1961

2005–06 Assessed Value of Property Exempted: $2.0 billion

	Loss	Shift
2005–07 Revenue Impact:	$38,800,000	$8,500,000
2007–09 Revenue Impact:	$40,300,000	$8,900,000

DESCRIPTION: Privately owned standing timber in Eastern Oregon is exempt from local property taxation.

PURPOSE: To improve the financial viability of timber production by eliminating the property tax burden.

Property Tax
Full Exemption

WHO BENEFITS: Private timber owners benefit directly.

EVALUATION: Prior to 1977 in Western Oregon and 1961 in Eastern Oregon, both land and timber were taxed as property. In some cases this led to premature harvesting to lower property tax burden. To encourage holding timber to longer rotation ages, the property tax on the value of the timber was eliminated, but a yield tax on timber harvests was retained. In 1993, in recognition of the now crop nature of growing timber and the substantial investment it requires, the tax on the crop (privilege tax) was eliminated. *[Evaluated by the State Forestry Department.]*

2.052 PRIVATE FARM AND LOGGING ROADS

Oregon Statute: 308.236
Sunset Date: None
Year Enacted: 1963

2005-06 Assessed Value of Property Exempted: $1.6 billion

	Loss	Shift
2005–07 Revenue Impact:	$33,700,000	$6,700,000
2007–09 Revenue Impact:	$36,100,000	$7,200,000

DESCRIPTION: Farm, grazing, and logging roads on private land are exempt from local property taxation. Exempted property also includes the culverts, drains, fill, surfacing, and bridges associated with these roads. The land under the roads is taxable. The exemption does not apply to principal exterior timber access roads, which are two-lane improved roads that are continuously maintained and connect a timber conversion center or public highway to a principal forest area.

PURPOSE: The original purpose may have been to avoid the difficulty of putting a value on these roads, most of which are logging roads. Many logging roads are built specifically to allow timber to be harvested. Once the harvest is finished, the roads have little or no value. Some logging roads, however, are used for forest management and fire suppression on an ongoing basis, so they maintain value long after they are built.

WHO BENEFITS: Owners of farm and timberland where roads have been built. Most of the value exempt under this provision is logging roads. Logging roads are expensive to build because they must accommodate heavy logging equipment and are usually built in hilly or mountainous terrain. Farm roads are generally on flat land and involve little cost to build.

EVALUATION: This expenditure is effective in avoiding the difficulty of putting a value on these roads. *[Evaluated by the State Forestry Department.]*

2.053 FOREST FIRE PROTECTION ASSOCIATION

Oregon Statute: 307.125
Sunset Date: None
Year Enacted: 1957

2005–06 Assessed Value of Property Exempted: $10 million

	Loss	Shift
2005–07 Revenue Impact:	$300,000	Less than $50,000
2007–09 Revenue Impact:	$300,000	Less than $50,000

DESCRIPTION: All property of forest protection districts, organizations, associations and agencies is exempt from property taxation if the property is used exclusively for forest protection and fire suppression under ORS Chapter 477.

PURPOSE: To help keep the cost of protecting timber assets low.

WHO BENEFITS: Forest protection associations. Most of the property of forest protection entities has been deeded over to the State Forestry Department, and the associations work under contract or cooperative agreement with the department. Currently twelve forest protection associations exist in the state. The three largest associations operate in Douglas County, in Coos and Curry counties, and in northern Klamath County.

EVALUATION: This provision is effective in achieving its purpose. The costs of providing forest fire prevention and suppression varies among districts due to the fuel and weather conditions that prevail on the lands protected and the risks and hazards that exist. It appears that this tax treatment provides the equity desired, as the purely administrative costs do not appear to be different among the various districts, whether association or state-operated. Because the expenses of these associations are largely borne by the forest landowner, the associations would likely raise the assessments to landowners if this property were not exempt. *[Evaluated by the State Forestry Department.]*

2.054 INACTIVE MINERAL INTERESTS

Oregon Statute: 308.115
Sunset Date: None
Year Enacted: 1997

2005-06 Assessed Value of Property Exempted: $7.2 million

	Loss	Shift
2005–07 Revenue Impact:	$200,000	Less than $50,000
2007–09 Revenue Impact:	$200,000	Less than $50,000

DESCRIPTION: Mineral interests owned separately from surface interests are exempt from local property tax if the property is not being mined.

PURPOSE: To eliminate the administrative burden of assessing these accounts.

WHO BENEFITS: Owners of mineral interests who are not actively mining those interests.

EVALUATION: This expenditure has been effective in reducing the administrative costs of county assessment offices. Initially, additional work was required to remove these accounts from the tax rolls, but once that work is completed no significant administration is needed for these accounts.

We expect administrative costs to be low, with little change in total new exemptions. *[Evaluated by the Department of Geology and Mineral Industries.]*

2.055 LEASED STATE LAND BOARD LAND

Oregon Statute: 307.168
Sunset Date: None
Year Enacted: 1982

2005-06 Assessed Value of Property Exempted: $85.5 million

	Loss	Shift
2005–07 Revenue Impact:	$1,800,000	$400,000
2007–09 Revenue Impact:	$1,900,000	$400,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, land leased from the State Land Board or Department of State Lands is exempt from local property taxation. Eligible land includes submerged, submersible, and grazing land but excludes mines, quarries or minerals, and buildings or improvements.

The State Land Board receives about $3 million in gross lease revenue per year from grazing land and waterways for the Common School Fund.

PURPOSE: To provide property tax relief to livestock owners and to avoid the difficulty of valuing the property with its restrictions.

WHO BENEFITS: Lessees benefit through reduced taxes.

EVALUATION: This exemption is effective in achieving its purpose. As trustee of the Common School Fund, the state manages lands owned by the Fund in order to maximize revenue, consistent with long-term resource stewardship. Exempting leased Common School lands from taxation can help increase lease income, and therefore furthers the primary trust obligation. *[Evaluated by the Department of State Lands.]*

2.056 SMALL WATERCRAFT

Oregon Statute: 830.790(2)
Sunset Date: None
Year Enacted: 1959

2005-06 Assessed Value of Property Exempted: $1.1 billion

	Loss	Shift
2005–07 Revenue Impact:	$30,100,000	$4,900,000
2007–09 Revenue Impact:	$30,700,000	$5,000,000

DESCRIPTION: Certain boats requiring certificates from the State Marine Board are exempt from property taxation. Owners instead pay fees to the Marine Board. Floating homes and boat houses are taxable.

PURPOSE: To avoid administrative problems dealing with a very mobile property. It would be very difficult to ascertain the value of small boats, which can depreciate rapidly depending on make, model, use, and care.

WHO BENEFITS: As of December 2005, there were 187,640 boats registered in Oregon. Nearly 85 percent of these boats are less than 20 feet in length.

IN LIEU: Fees for registration and title are estimated to be about $11.4 million in the 2005–07 biennium. Registration fees are based on a flat fee of $3.00 per foot/two years. This fee schedule was approved by the 2003 Legislature. Boating programs are funded entirely by user fees.

EVALUATION: This exemption effectively achieves its purpose. This exemption is an extension of the personal property for personal use exemption, much the same as personal use motor vehicles, recreational vehicles, all terrain vehicles, and personal aircraft are exempt. The exemption avoids the administrative problems that are inherent in assessing property taxes on mobile personal property that tends to decrease in value over time. *[Evaluated by the Marine Board.]*

2.057 MINING CLAIMS ON FEDERAL LAND

Oregon Statute: 307.080
Sunset Date: None
Year Enacted: 1889

2005-06 Assessed Value of Property Exempted: $6.6 million

	Loss	Shift
2005–07 Revenue Impact:	$100,000	Less than $50,000
2007–09 Revenue Impact:	$200,000	Less than $50,000

DESCRIPTION: Unpatented mining claims on federal property are exempt from local property taxation. Any improvements or equipment on the claim are taxable. Unpatented mining claims are private claims to public land without the federal government having conveyed title.

PURPOSE: To maintain exempt status of property held by the federal government until title is transferred to a private owner.

WHO BENEFITS: In 2006, there were 5,510 mining claims on Bureau of Land Management land in Oregon. Claims are usually between 20 and 160 acres, but the number of claims varies a great deal over time.

EVALUATION: The exemption of mining claims on federal land is inconsistent with the treatment of other taxable activity taking place on property owned by an exempt entity. In most other circumstances, such property would be taxed. The rationale for this exemption may be that mining claims are intangible in nature, and intangible property is typically exempt from local property taxation. *[Evaluated by the Department of Revenue.]*

2.058 NONPROFIT PUBLIC PARK USE LAND

Oregon Statute: 307.115
Sunset Date: None
Year Enacted: 1971

2005-06 Assessed Value of Property Exempted: $8 million

	Loss	Shift
2005–07 Revenue Impact:	$200,000	Less than $50,000
2007–09 Revenue Impact:	$200,000	Less than $50,000

DESCRIPTION: Nonprofit corporation property used for public park or recreation purposes is exempt from property taxation if the following conditions are met:

- the purpose of the corporation is to acquire park or recreation property,
- the property is used for public park or public recreation purposes and cannot be used for the production of income,
- any net earnings of the corporation must not benefit any private individual,
- upon dissolution, any remaining assets must revert to the state or a local government, and
- the land use must accomplish one of the purposes listed in the statute. These purposes are the same as those in the open space law except that one additional purpose is provided—"promote the reservation of land for public parks, recreation, or wildlife refuge purposes."

The nonprofit corporation must file an application with the county assessor to claim the exemption. The city or county governing body having jurisdiction will act on the application. This exemption is for 10 years and is renewable by re-application.

PURPOSE: To encourage development of parks by private corporations as an alternative to publicly owned parks. Private development may be possible when public development is not.

WHO BENEFITS: Roughly 30 privately owned parks are exempt under this provision.

EVALUATION: This exemption appears to be effective in achieving its purpose. The exemption encourages the preservation of open space and park land. Little information exists that would allow an in-depth evaluation of these programs, but as a matter of public policy, this program contributes to the special quality of life in Oregon and helps meet the needs of our growing population for open spaces, greenways, natural settings, and recreational facilities. The program also supplements what the government can provide by encouraging land management decisions that contribute to the public good by non-government entities. *[Evaluated by the State Parks and Recreation Department.]*

2.059 RAILROAD RIGHT OF WAY USED FOR ALTERNATIVE TRANSPORT

Oregon Statute: 307.205
Sunset Date: None
Year Enacted: 1977

2005–06 Assessed Value of Property Exempted: $0

	Loss	Shift
2005–07 Revenue Impact:	$0	$0
2007–09 Revenue Impact:	$0	$0

DESCRIPTION: Real property owned by a railroad is exempt from property tax if the property is temporarily and exclusively used for public alternative transportation. A claim must be filed with the county assessor by April 1.

PURPOSE: To encourage railroads to allow their unused right-of-way to be used for such things as public light rail systems or bicycle paths.

WHO BENEFITS: No railroad right of way is known to qualify. Formerly exempt routes have been sold or transferred to public ownership.

EVALUATION: Not evaluated.

2.060 MOTOR VEHICLES AND TRAILERS

Oregon Statute: 803.585
Sunset Date: None
Year Enacted: 1919

2005–06 Assessed Value of Property Exempted: $26.2 billion

	Loss	Shift
2005–07 Revenue Impact:	$710,300,000	$115,900,000
2007–09 Revenue Impact:	$748,500,000	$122,100,000

DESCRIPTION: Most vehicles are exempt from property taxation. The exemption covers virtually all vehicles that transport people or goods over public roads including cars, trucks, buses, most travel trailers, campers, and motorcycles.

Travel trailers include park trailers less than 8½ feet wide. Although travel trailers are normally exempt from property taxation, an owner may have it assessed for property taxation if the trailer is used as a permanent home or for purposes other than recreation (ORS 308.880). No registration is needed in this case.

Fixed-load vehicles that are not used primarily to transport people or property over public roads are generally taxable. ORS 801.285 lists five fixed-load vehicles that are exempt, including self-propelled mobile cranes.

Owners of exempt vehicles are required to pay registration fees in lieu of property taxes.

PURPOSE: To base the tax on motor vehicles on their share of the cost of maintaining a transportation system.

WHO BENEFITS: In 2005 there were about 3.2 million registered cars and pickups and about 0.8 million other registered vehicles and trailers in Oregon.

IN LIEU: The two-year registration fee for cars and pickups is $54; for motorcycles it is $30. The four-year new car registration fee is simply double the two-year amount. The fee for large trucks and buses varies by registered weight. Other on- and off-road vehicles have different fees for various time periods. The in lieu registration fees will be about $186 million for cars and pickups and $73 million for all other vehicles. Part of this revenue is distributed to local districts for road construction and maintenance.

EVALUATION: This expenditure achieves its purpose. The principle of assessing those who benefit from highway facilities and services for a fair share of the cost has a long history and is well supported by current methods of assessing user fees. Article IX, Section 3a of the Constitution further emphasizes this principle by dedicating all such revenues to be used exclusively for the construction and maintenance of highways. The user fee principle suggests that people should be taxed based on their use of highway services. Value related taxation would upset that user fee principle by taxing vehicles based on value, which might be unrelated to their use of highway services. *[Evaluated by the Department of Transportation.]*

2.061 ODOT LAND UNDER USE PERMIT

Oregon Statute: 307.110(3)(c)
Sunset Date: None
Year Enacted: 1981

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, Oregon Department of Transportation (ODOT) real property used by a person under a land use permit is exempt from property taxation. The exemption applies to real property with use restrictions such that only an administrative processing fee can be charged. These are generally small parcels abutting highways used for pasture or landscaping. Other real property leased for more than an administrative fee (for parking or commercial displays, for example) is taxable.

PURPOSE: To lower the cost for taxpayers using ODOT property under a use permit, and to avoid the administrative difficulty of valuing this property.

WHO BENEFITS: In August 2006, ODOT had 274 active permits that provide approximately $11,030 in annual administrative fees. By permitting this use, ODOT saves maintenance and weed control costs.

EVALUATION: This provision is effective in achieving its purpose. It reduces costs to both ODOT and county governments. *[Evaluated by the Department of Transportation.]*

2.062 NONPROFIT WATER ASSOCIATIONS

Oregon Statute: 307.210
Sunset Date: None
Year Enacted: 1937, Modified in 2003 (HB 2026)

2005-06 Assessed Value of Property Exempted: $8.4 million

	Loss	Shift
2005–07 Revenue Impact:	$200,000	Less than $50,000
2007–09 Revenue Impact:	$200,000	Less than $50,000

DESCRIPTION: Property of mutual or cooperative water associations is exempt from taxation if:

- the association is nonprofit,
- the primary purpose of the association is to store, convey, and distribute water to its members for domestic use or irrigation,
- no more than 15 percent of the members are commercial establishments using water for commercial purposes, and
- no more than 25 percent of the total annual volume of water furnished by the association is used by commercial establishments for commercial purposes.

Property exempt under this provision includes land, improvements, fixtures, equipment, supplies, dams, and dikes.

An association seeking to claim this exemption must file an application with the county assessor. Associations do not need to reapply each year as long as the ownership and use of the property remain unchanged from the previous tax year.

PURPOSE: To encourage the distribution of water in areas not supplied by publicly-owned water systems.

WHO BENEFITS: Approximately 400 water associations are exempt.

EVALUATION: Not evaluated.

2.063 NONPROFIT ELECTRICAL DISTRIBUTION ASSOCIATIONS

Oregon Statute: 308.805
Sunset Date: None
Year Enacted: 1943

2005–06 Assessed Value of Property Exempted: $409.0 million

	Loss	Shift
2005–07 Revenue Impact:	$8,600,000	$1,700,000
2007–09 Revenue Impact:	$9,200,000	$1,900,000

DESCRIPTION: The transmission and distribution lines of a mutual or cooperative electrical association are exempt from local property taxation if:

- the association is nonprofit, and

- the principle purpose of the association is to distribute electricity to its members (ORS 308.805 to 308.820).

The exemption for transmission and distribution lines includes all property that is energized or energizable and all property supporting or integrated with energized or energizable property. This includes but is not limited to: substations, poles, conductors, transformers, services, meters, street lights, easements, generators, communication equipment, lines leased to government agencies, tools, supplies, and office furniture and equipment.

Exempt associations must pay the lesser of (1) a tax in lieu of the property tax, at 4 percent on gross revenue minus power costs or (2) property tax at the Measure 5 limits plus a bond rate. Gross revenue includes all revenue from the operation of electric distribution systems except line lease payments from government agencies.

Proceeds from these payments are distributed to the counties in proportion to the system's wire miles in each county. Within each county, 66.7 percent goes to the county and 33.3 percent to the county school fund.

PURPOSE: To avoid the difficulty of assessing electrical lines and to encourage the distribution of electricity in areas not supplied by for-profit companies because of the distribution cost.

WHO BENEFITS: Nineteen cooperatives are exempt under this provision.

IN LIEU: In 2005–06, the four percent in lieu tax on gross revenue will be less than property taxes for 16 of the 19 cooperatives. The total gross revenue tax paid by these cooperatives will be $4.7 million.

EVALUATION: This provision appears to be effective in achieving its purpose, but an in-depth evaluation of the program is not possible because these cooperatives are not regulated. The Public Utility Commission does not have any financial or other information about these companies.

All 19 electric cooperatives in the state qualify for the exemption. Sixteen of these currently are charged the in-lieu tax. As a result, their distribution lines need not be assessed for property tax purposes, resulting in savings for the state. Imposing property taxes on these cooperatives would likely result in higher electricity rates for their customers. If that were to happen, it may be that for-profit private utilities could then offer electricity at rates lower than the cooperatives, but without more information it is not possible to evaluate that possibility. *[Evaluated by the Public Utility Commission.]*

2.064 NONPROFIT TELEPHONE ASSOCIATIONS

Oregon Statute: 307.220
Sunset Date: None
Year Enacted: 1941

2005–06 Assessed Value of Property Exempted: $0

	Loss	Shift
2005–07 Revenue Impact:	$0	$0
2007–09 Revenue Impact:	$0	$0

DESCRIPTION: Certain telephone system property of a mutual or cooperative telephone association is exempt from property taxation if:

- the association is nonprofit;
- the sole purpose of the association is the operation of a telephone system for the use of its members;
- the association does not own, lease, or have an interest in the switchboard exchange; and
- the system has a cash value of less than $2,500.

Property exempt under this provision includes improvement, fixtures, equipment and supplies. Land and buildings are not exempt.

PURPOSE: To encourage telephone service in rural areas.

WHO BENEFITS: Nonprofit telephone associations will have lower costs due to this property tax exemption and should pass these along to their customers in the form of lower rates.

EVALUATION: This expenditure does not appear to be achieving its purpose. Because of technological advances in telephone communications, the equipment that qualifies for this exemption appears to be obsolete. According to information from the Department of Revenue, the number of taxpayers qualifying for the exemption has been declining steadily. All telephone associations reported paying property taxes in 1998–99; each had switching equipment exceeding $300,000, and no system would have a cash value less than $2,500. *[Evaluated by the Public Utility Commission.]*

2.065 PRIVATE SERVICE TELEPHONE EQUIPMENT

Oregon Statute: 307.230
Sunset Date: None
Year Enacted: 1941

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: Certain telephone property that serves only the system owner’s property is exempt from property taxation if the individual is not engaged in public service operations, and the system’s value does not exceed $1,500. Property exempt under this provision includes improvements, fixtures, equipment, and supplies used for the construction, maintenance, and operation of the telephone system.

PURPOSE: To reduce the administrative burden associated with assigning value to private service telephone equipment.

WHO BENEFITS: Owners of private service telephone equipment, although it is unknown whether any taxpayers are using the exemption at this time.

EVALUATION: This provision does not appear to be achieving its purpose. No specific information exists that would allow a thorough evaluation of this exemption. Given the recent advances in telephone technology, it seems unlikely that much, if any, of the type of equipment that qualifies for this exemption is still in use. *[Evaluated by the Public Utility Commission.]*

2.066 FCC LICENSES

Oregon Statute: 307.126
Sunset Date: None
Year Enacted: 2001

2005–06 Assessed Value of Property Exempted: $223.7 million

	Loss	Shift
2005–07 Revenue Impact:	$6,100,000	$1,000,000
2007–09 Revenue Impact:	$6,400,000	$1,100,000

DESCRIPTION: The value of the Federal Communications Commission (FCC) licenses held by utility companies is exempt from property taxation and may not be included in the value of real or tangible personal property.

PURPOSE: To remove this form of intangible property from property taxation. In the past, this value had been taxed along with other types of utility-owned intangible property.

WHO BENEFITS: Wireless telecommunication utilities are the main beneficiaries of the exemption. FCC licenses held by nonutility companies would be exempt under Intangible Personal Property (2.067).

EVALUATION: This tax expenditure meets the stated purpose of removing the FCC licenses from property taxation, but no specific information is available to determine whether Oregon customers of the affected companies have benefited, e.g., through lower rates, or whether there is a more fiscally effective means of achieving the purpose. *[Evaluated by the Public Utilities Commission.]*

2.067 INTANGIBLE PERSONAL PROPERTY

Oregon Statute: 307.030
Sunset Date: None
Year Enacted: 1935

2005–06 Assessed Value of Property Exempted: $364.5 billion

	Loss	Shift
2005–07 Revenue Impact:	$10,013,800,000	$1,633,500,000
2007–09 Revenue Impact:	$11,145,600,000	$1,818,100,000

DESCRIPTION: Certain intangible personal property is exempt from local property taxation. Intangible personal property includes:

- financial property such as interest-bearing accounts, stocks, and bonds,
- business records in various media forms, and
- business intangibles like goodwill, patents, trademarks, and copyrights.

Intangible personal property of centrally-assessed utilities such as communications, energy, railroads, and airlines are included in the taxable value of these companies. For these utilities, only the intangible value of the Federal Communications Commission (FCC) licenses is exempt [see FCC Licenses (2.066)].

PURPOSE: To reduce the administrative burden associated with identifying and assigning value to intangible personal property.

WHO BENEFITS: The exemption benefits virtually every household and business in Oregon.

EVALUATION: The experience of most states that impose taxes on intangible personal property is that the taxes are difficult to administer effectively and equitably. Taxes on intangibles are relatively easy to avoid for most intangible assets by simply locating them in a state that does not impose an intangibles tax. In addition, tax compliance tends to be low because many taxpayers are unaware of the tax and enforcement is difficult.

The exemption achieves its purpose of avoiding administrative costs, but it also is likely to create some economic inefficiencies by favoring the ownership of intangible property over tangible property.

The issue of taxation of the intangible property of centrally-assessed utilities received considerable attention during recent legislative sessions. With deregulation of the telecommunications and energy industries, these industries are concerned about paying taxes on intangible property that future competitors would not pay. A critical element of this discussion has centered on the definition of intangible property. *[Evaluated by the Department of Revenue.]*

2.068 PERSONAL PROPERTY FOR PERSONAL USE

Oregon Statute: 307.190
Sunset Date: None
Year Enacted: 1854

2005–06 Assessed Value of Property Exempted: $24.5 billion

	Loss	Shift
2005–07 Revenue Impact:	$667,800,000	$108,900,000
2007–09 Revenue Impact:	$725,100,000	$118,300,000

DESCRIPTION: Tangible personal property held by the owner for personal use is exempt from property tax. Examples of personal property for personal use are household goods, furniture, appliances, personal effects, clothing, recreational goods, and entertainment equipment.

The exemption does not apply to any property that is:

- wholly or partially used in the ordinary course of a trade or business,
- used for the production of income or solely for investment,
- required to be licensed or registered, or
- a floating home, boathouse, or manufactured structure.

PURPOSE: To reduce the administrative burden associated with assigning value to various personal property items.

WHO BENEFITS: The exemption benefits all households.

EVALUATION: This exemption achieves its purpose of avoiding the administrative difficulties of valuing the personal property of individuals. However, the exemption also creates some inequities by treating personal property and real property differently and by treating the personal property of individuals and businesses differently (business personal property is taxed). In addition, it can slow economic growth by altering purchasing decisions. *[Evaluated by the Department of Revenue.]*

2.069 BEVERAGE CONTAINERS REQUIRING DEPOSIT

Oregon Statute: 307.402
Sunset Date: None
Year Enacted: 1983

2005–06 Assessed Value of Property Exempted: $4.9 million

	Loss	Shift
2005–07 Revenue Impact:	$100,000	Less than $50,000
2007–09 Revenue Impact:	$100,000	Less than $50,000

DESCRIPTION: All beverage containers that have a refund value (requiring a deposit) are exempt from property tax. These containers are not considered inventory if owned by the distributor. The containers are not “sold” with the contents but are intended to be returned for a refund. Deposit containers for carbonated soft drinks and beer may be glass, metal, or plastic. Market value varies by type of container and size. The estimate assumes inventory at bottlers, distributors, and retail stores to be about one month of sales.

PURPOSE: To avoid the difficulty of assigning a value to this property.

WHO BENEFITS: The beneficiaries of this exemption are bottlers, distributors, and retail stores that temporarily hold beverage containers requiring a deposit.

EVALUATION: It would be virtually impossible to effectively tax the value of these containers, which are constantly moving through the chain of manufacturing, distribution, consumption, and recycling. [*Evaluated by the Department of Revenue.*]

2.070 STATE AND LOCAL PROPERTY

Oregon Statute: 307.090
Sunset Date: None
Year Enacted: 1854

2005–06 Assessed Value of Property Exempted: $53 billion

	Loss	Shift
2005–07 Revenue Impact:	$1,460,300,000	$238,200,000
2007–09 Revenue Impact:	$1,638,000,000	$267,200,000

DESCRIPTION: State and local government property is exempt from property taxation. State or local government property held under contract of sale or lease by a private party is taxable. For example, office buildings owned by the state of Oregon and used for public purposes are exempt, but space in those same buildings, if leased to a private company, is taxable.

Common School Fund land is exempt even if leased for private use. Article 8, Section 2 of the Oregon Constitution requires that all proceeds from certain lands granted to the state be dedicated to the Common School Fund. According to the attorney general, this means such lands are not taxable. The land involved includes some state forestland, farm land leased in Eastern Oregon, and submerged or submersible lands on the coast.

The Oregon Legislature exempted some leasehold interests that otherwise would be taxable state and local property. Refer to the following exemptions in this report:

- Leased Student Housing Publicly Owned (2.003),
- Higher Education Parking Space (2.004),
- Leased Docks and Airports (2.018),
- Leased Publicly Owned Shipyard Property (2.019),
- Fairground Leased Storage Space (2.029),
- Leased Public Farming and Grazing Land (2.037),
- Leased State Land Board Land (2.055),
- Oyster Growing on State Land (2.039),
- State and Local Standing Timber Under Contract (2.049), and
- ODOT Land Under Use Permit (2.061).

PURPOSE: To avoid state government paying property tax to local governments and local governments paying property tax to each other.

WHO BENEFITS: State and local governments in Oregon. Counties report approximately 45,000 properties throughout Oregon.

IN LIEU: The following types of property make in lieu payments to local taxing districts:

- City Property Used to Produce Energy (ORS 307.090(2)),
- Fish and Wildlife Commission Lands (ORS 496.340),
- State Timber Land (ORS 530.110–530.115), and
- Common School Fund Lands (ORS 327.410–327.420).

EVALUATION: The exemption of state and local government property from property taxes has achieved its purpose of avoiding the taxation of one government by another, but many economists have argued that this purpose may not be a sensible one. In arguing for this exemption, most governments point out that taxing government property is simply a transfer of funds between different government entities. This is not strictly correct. To the extent that governments consume services provided by other governments (police and fire protection, streets and sidewalks, the demand for park space, etc.), this exemption represents a subsidy that must be paid for by other taxpayers. The exemption also disrupts the role that taxes play as prices in the economy, leading to both inequities and reduced economic growth. *[Evaluated by the Department of Revenue.]*

2.071 BEACH LANDS

Oregon Statute: 307.450
Sunset Date: None
Year Enacted: 1969

2005–06 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2005–07 Revenue Impact:	Not Available	Not Available
2007–09 Revenue Impact:	Not Available	Not Available

DESCRIPTION: Beach lands are exempt from property taxation. However, improvements are not exempt. Generally, beach lands are those along the Pacific Ocean between the extreme low tide and the vegetation line. While much of this land is publicly owned, some is privately owned, but in most cases it has severe restrictions on development (ORS 390.605 to 390.729). While this tax expenditure covers all beach land, regardless of ownership, the publicly owned portion of beach land would be exempt under State and Local Property (2.070), if this provision did not exist.

The state owns the beach land between ordinary high tide and extreme low tide. The “dry sand” land between ordinary high tide and the vegetation line (16 feet elevation) can be privately owned. Of the 362 mile coastline, 262 miles has dry sand beach. Dry sand beach of 116 miles is privately owned and 146 miles is publicly owned. The State Parks and Recreation Department administers 76 of the state-owned miles.

PURPOSE: The exemption is part of 1969 legislation to preserve public access to ocean beaches and is intended to clarify that ocean beaches, even if privately owned, are exempt from property taxation.

WHO BENEFITS: Owners of beach front property and others who use Oregon beaches.

EVALUATION: Privately owned beach lands are typically portions of privately owned lots that include both beach and nonbeach land. The beach portion is not taxed, but it also has severe restrictions on development. It is likely, however, that undeveloped beach land contributes to the value of the nonbeach portions of ocean-front lots, so the value of the beach portion is, in effect, taxed indirectly. *[Evaluated by the Department of Revenue.]*

2.072 LOCAL GOVERNMENT PUBLIC WAYS

Oregon Statute: 307.200
Sunset Date: None
Year Enacted: 1895

2005–06 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2005–07 Revenue Impact:	Not Available	Not Available
2007–09 Revenue Impact:	Not Available	Not Available

DESCRIPTION: Privately held land that is subject to a designated public right-of-way is exempt from taxation. Affected land is land under a road, or within the boundaries of a road. The property owners do not have private use of the land. The land is not assessed and is not tracked on the assessment or tax roll.

Land subject to this exemption has clear economic value, but it is unclear if it carries direct value in the context of how property is valued in the property tax system. The value of the right-of-way may be captured in the increased value of adjoining lands and properties.

PURPOSE: To clarify that affected land is exempt from property tax and to recognize the difficulty associated with placing a value on the land.

WHO BENEFITS: It is not clear who benefits.

EVALUATION: This exemption achieves its purpose. *[Evaluated by the Department of Revenue.]*

2.073 PACIFIC NORTHWEST AC INTERTIE EXEMPTION

Oregon Statute: 307.090
Sunset Date: None
Year Enacted: 2005 (SB 31)

2005–06 Assessed Value of Property Exempted: $39 million

	Loss	Shift
2005–07 Revenue Impact:	$800,000	$200,000
2007–09 Revenue Impact:	$800,000	$200,000

DESCRIPTION: Exempts from taxation property related to the Pacific NW AC Intertie. To qualify for exemption, the property must be owned by a city or public entity of a state other than Oregon and the city or entity must not own other real property in Oregon. This exemption applies to tangible or intangible property, property rights or property interests in or related to the Pacific Northwest AC Intertie. Pacific NW – SW Intertie connects Washington, Oregon and California. It allows the transmission of electricity during high seasons from Pacific NW to Pacific SW and vice versa.

PURPOSE: To promote more efficient use of electricity by providing favorable conditions for members of Pacific NW AC Intertie.

WHO BENEFITS: Owners of qualifying property.

EVALUATION: Not evaluated.

2.074 TRIBAL LAND BEING PLACED IN U.S. TRUST

Oregon Statute: 307.181
Sunset Date: 6-30-12
Year Enacted: 1993

2005-06 Assessed Value of Property Exempted: $105 million

	Loss	Shift
2005–07 Revenue Impact:	$5,000,000	$850,000
2007–09 Revenue Impact:	$5,000,000	$850,000

DESCRIPTION: Land acquired by an Indian tribe is exempt from property taxation if the land is within ancient tribal boundaries and is in the process of being placed in a U.S. trust. The exemption continues until the land is placed in trust, up to a maximum of five years.

PURPOSE: The exemption allows land to be free of a property tax lien during the application time for placement in U.S. trust without cost to a tribe. The U.S. government requires the land be free of liens as a condition for the trust.

WHO BENEFITS: Indian tribes wishing to transfer property into U.S. trust. The following counties reported having property exempted under this statute: Douglas, Harney, Jefferson, Klamath, Lincoln, Polk, Umatilla, Wasco, and Yamhill.

EVALUATION: Not evaluated.

2.075 CHARITABLE, LITERARY, AND SCIENTIFIC ORGANIZATIONS

Oregon Statute: 307.130
Sunset Date: None
Year Enacted: 1854

2005–06 Assessed Value of Property Exempted: $3.2 billion

	Loss	Shift
2005–07 Revenue Impact:	$87,800,000	$14,300,000
2007–09 Revenue Impact:	$93,200,000	$15,200,000

DESCRIPTION: Property owned or being purchased by literary, benevolent, charitable organizations or scientific institutions is exempt from property taxation. To qualify, the organization or institution must:

- be a nonprofit corporation,
- provide a charitable gift to the public without expectation of payment, and
- occupy and use the property in a manner that furthers the organization's charitable purpose.

Shelter workshops and retail stores selling donated or consigned goods to support a welfare program are exempt. Parking lots are exempt as long as there is no charge for at least 355 days each year. The organization or institution must file an application with the county assessor to claim the exemption (ORS 307.162).

PURPOSE: To subsidize organizations providing property and services that serve a socially valuable function.

WHO BENEFITS: This exemption applies to many nonprofit organizations. Examples are some hospitals, social services, museums, youth and athletic groups, summer camps, and conservation groups. About 4,950 properties are exempt, but the number of organizations is unknown because the same organization may have property in more than one county.

EVALUATION: Not evaluated.

2.076 FRATERNAL ORGANIZATIONS

Oregon Statute: 307.136
Sunset Date: None
Year Enacted: 1961

2005–06 Assessed Value of Property Exempted: $291.9 million

	Loss	Shift
2005–07 Revenue Impact:	$8,200,000	$1,300,000
2007–09 Revenue Impact:	$9,100,000	$1,500,000

DESCRIPTION: Property used for fraternal lodge work, entertainment, or recreational purposes is exempt from property taxation. Fraternal organization property remains exempt even while being rented or leased to other persons so long as the rent does not exceed expenses for heat, lights, water, janitorial services and supplies. Parking lots are exempt as long as there is no charge for at least 355 days each year. The fraternal organization must file an application with the county assessor to claim the exemption.

To qualify, a fraternal organization must:

- be organized as a nonprofit,
- be established under the lodge system with ritualistic form of work and representative form of government,
- support some benevolent or charitable activity,
- not distribute any income to its officers, members, or employees except for reasonable compensation for services, and
- not be a college fraternity or sorority.

PURPOSE: To subsidize organizations providing property and services that serve a socially valuable function.

WHO BENEFITS: About 1,200 properties are exempt. Qualifying organizations include the State Grange, American Legion, Veterans of Foreign Wars, Eagles, Elks, Masons, Moose, Odd Fellows, Knights of Pythias, and Knights of Columbus.

EVALUATION: Not evaluated.

2.077 RELIGIOUS ORGANIZATIONS

Oregon Statute: 307.140
Sunset Date: None
Year Enacted: 1854

2005–06 Assessed Value of Property Exempted: $3.3 billion

	Loss	Shift
2005–07 Revenue Impact:	$88,600,000	$14,500,000
2007–09 Revenue Impact:	$93,000,000	$15,200,000

DESCRIPTION: Houses of public worship and other buildings or property used for administration, education, literary, benevolent, charitable, entertainment and recreational purposes, and cemeteries are exempt from property tax. Parking lots are exempt as long as there is no charge for at least 355 days each tax year.

The religious organization must file an application with the county assessor to claim the exemption (ORS 307.162).

PURPOSE: To recognize the social benefits of religious organizations.

WHO BENEFITS: Approximately 7,800 religious properties are exempt.

EVALUATION: Not evaluated.

2.078 CEMETERIES, BURIAL GROUNDS, AND MAUSOLEUMS

Oregon Statute: 307.150
Sunset Date: None
Year Enacted: 1854

2005–06 Assessed Value of Property Exempted: $229.8 million

	Loss	Shift
2005–07 Revenue Impact:	$6,100,000	$1,000,000
2007–09 Revenue Impact:	$6,300,000	$1,000,000

DESCRIPTION: Burial grounds, tombs, and rights of burial are exempt from property taxation. Also, land (not exceeding 30 acres) and buildings of crematory associations are exempt. Buildings to store maintenance equipment are included in the exemption. To qualify, a claim must be filed with the county assessor. Family burial grounds are exempt without application.

This statute exempts both nonprofit and for-profit cemetery and crematory associations, as well as family burial grounds. Cemeteries owned by cities, counties, or cemetery districts are exempt [see State and Local Property (2.070)]. Cemeteries owned and maintained by religious organizations are also exempt [see Religious Organizations (2.077)].

PURPOSE: The exemption was probably an implementation of traditional public policy to not tax cemeteries.

WHO BENEFITS: In 2005–06, roughly 1,100 properties were exempt. Over half of the exempt value is located in Multnomah County.

EVALUATION: Not evaluated.

2.079 TRANSFER OF LAND FROM CEMETERY TO SCHOOL

Oregon Statutes: 307.157
Sunset Date: 12-31-10
Year Enacted: 2001

2005-06 Assessed Value of Property Exempted: $9.2 million

	Loss	Shift
2005-07 Revenue Impact	$200,000	Less than $50,000
2007-09 Revenue Impact	$300,000	Less than $50,000

DESCRIPTION: In general, if land that is exempt under a given statute ceases to be used for those purposes, it becomes taxable. Under this provision, however, land that ceases to be used for cemetery or crematory purposes [Cemeteries, Burial Grounds, and Mausoleums (2.078)] remains exempt as long as the land is owned or being purchased by an incorporated charitable institution in connection with educational purposes.

The “additional tax” [ORS 307.155(2)] that would have been due except for this provision is reduced by 10 percent for each 12-month period in which the land was owned by the charitable institution in connection with educational purposes.

To qualify for this special treatment, the property must be purchased on or after January 1, 2001, and before January 1, 2011. The exemption pertains to tax year beginning on or after July 1, 2001, and before July 1, 2021.

PURPOSE: To eliminate the potential tax burden as property is transferred between two tax-exempt organizations.

WHO BENEFITS: Owners of land that is transferred from a cemetery to a school.

EVALUATION: Not evaluated.

2.080 EXEMPT LEASE FROM TAXABLE OWNER

Oregon Statute: 307.112
Sunset Date: None
Year Enacted: 1977

2005–06 Assessed Value of Property Exempted: *

	Loss	Shift
2005–07 Revenue Impact:	*	*
2007–09 Revenue Impact:	*	*

** Included in other ORS Chapter 307 property exemption tax expenditures.*

DESCRIPTION: Property that is leased to an entity that qualifies for a property tax exemption (under ORS 307.090, 307.130, 307.136, 307.140, 307.145 or 307.147) is exempt from property taxation. Eligible entities are institutions, organizations, and public bodies (other than the state of Oregon). To qualify, the property must be used for a qualifying purpose, and the rent charged must be below market value in reflection of the exemption. The lessee must file an application with the county assessor to receive this exemption.

PURPOSE: To encourage leasing property to exempt organizations.

WHO BENEFITS: Exempt organizations and local governments.

EVALUATION: This exemption extends the other Chapter 307 exemptions listed in the description. The evaluations for those exemptions appear with those specific tax expenditures.

2.081 EXEMPT LEASE FROM EXEMPT OWNER

Oregon Statute: 307.166
Sunset Date: None
Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: *

	Loss	Shift
2005–07 Revenue Impact:	*	*
2007–09 Revenue Impact:	*	*

** Included in other ORS Chapter 307 property exemption tax expenditures.*

DESCRIPTION: Property that is leased or rented to an entity that qualifies for a property tax exemption (under Chapter 307) from an owner who also qualifies for an exemption is exempt from property tax. Eligible entities are institutions, organizations, and public bodies. To qualify, the property must be used for a qualifying purpose, and the rent charged must not exceed the cost of repairs and maintenance. The lessee must file an application with the county assessor to claim the exemption.

PURPOSE: To encourage leasing property to exempt organizations.

WHO BENEFITS: Exempt organizations, such as charities.

EVALUATION: This exemption extends other Chapter 307 exemptions. The evaluations for the other exemptions appear with those specific tax expenditures.

2.082 CITY-OWNED SPORTS FACILITIES

Oregon Statutes: 307.171
Sunset Date: None
Year Enacted: 2001

2005-06 Assessed Value of Property Exempted: $20 million

	Loss	Shift
2005-07 Revenue Impact	$800,000	$100,000
2007-09 Revenue Impact	$900,000	$100,000

DESCRIPTION: In general, when public property is held under contract of sale or is leased to a private individual or business, it is considered taxable. However, this provision exempts any sports facilities owned by a city with a population of at least 500,000 from taxation, even if leased to or operated by a taxpaying entity.

PURPOSE: To clarify that Portland-owned sports facilities are exempt, even if leased to a taxable entity.

WHO BENEFITS: The only facility affected by this law is PGE Park in Portland.

EVALUATION: Not evaluated.

2.083 CONVENTION FACILITIES

Oregon Statutes: 263.290
Sunset Date: None
Year Enacted: 1985

2005-06 Assessed Value of Property Exempted: $0

	Loss	Shift
2005-07 Revenue Impact	$0	$0
2007-09 Revenue Impact	$0	$0

DESCRIPTION: Any real or personal property acquired, owned, leased, controlled, used, or occupied by a sports and convention facilities commission established under ORS 263.210 is exempt from property taxation. The commission must be created by a ballot measure and established as a municipal corporation.

PURPOSE: To ensure the property of these municipal corporations is not taxed.

Property Tax
Full Exemption

WHO BENEFITS: There are no known beneficiaries of this statute.

EVALUATION: Not evaluated.

2.084 LLC OWNED BY NON-PROFIT CORPORATION

Oregon Statute: 307.022
Sunset Date: None
Year Enacted: 2005 (SB 283)

2005–06 Assessed Value of Property Exempted: $0 ($5.0 million in 2006-07)

	Loss	Shift
2005–07 Revenue Impact:	$100,000	Less than $50,000
2007–09 Revenue Impact:	$100,000	Less than $50,000

DESCRIPTION: A Limited Liability Company (LLC) that is wholly owned by non-profit corporations is an entity that qualifies for a special assessment or property tax exemption if the non-profit corporations would qualify. The LLC's property qualifies for special assessment or exemption if it is exclusively using the property consistent with the non-profit corporations' purposes.

The provision applies to tax years beginning on or after July 1, 2006.

PURPOSE: To allow non-profit owners of property to structure their property ownership in a way that provides the limited liability protection of an LLC while still providing the owner a property tax advantages.

WHO BENEFITS: Non-profit corporations that would qualify for a property tax exemption or special assessment that own property through wholly owned LLCs.

EVALUATION: Not evaluated.

2.085 FEDERAL PROPERTY

Oregon Statute: 307.040
Sunset Date: None
Year Enacted: 1848

2005-06 Assessed Value of Property Exempted: $88.4 billion

	Loss	Shift
2005–07 Revenue Impact:	$2,339,300,000	$391,400,000
2007–09 Revenue Impact:	$2,545,400,000	$415,200,000

DESCRIPTION: Property of the United States and its agencies is exempt from property tax when taxation is prohibited by federal law. Federal property held under contract of sale or lease by a private party is generally taxable.

The Oregon Legislature exempted some leasehold interests that otherwise would be taxable federal land. Refer to the following exemptions in this report:

- Federal Land Under Recreation Facility (2.023),

- Federal Land Under Summer Homes (2.025),
- Leased Federal Grazing Land (2.038),
- Federal Standing Timber Under Contract (2.048), and
- Mining Claims on Federal Land (2.057).

PURPOSE: To comply with federal law.

WHO BENEFITS: The United States owns about 30 million acres in Oregon, or 48 percent of the land. The exempt value includes federal structures and equipment, land, and sawtimber. Most of the value is standing timber. In 2005–06 there were about 22,300 exemptions reported by Oregon counties.

IN LIEU: The federal government makes payments in lieu of property taxes to local governments for the following types of federal land:

- federal Oregon and California Railroad (O & C) lands,
- federal forest land,
- land subject to the Payments In Lieu Of Taxes Act of 1976,
- Coos Bay Wagon Road lands,
- public land resource sales,
- BLM grazing lands, and
- U.S. mineral leases.

EVALUATION: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

2.086 INDIAN PROPERTY ON RESERVATION

Oregon Statute: 307.180
Sunset Date: None
Year Enacted: 1854

2005-06 Assessed Value of Property Exempted: Not Available

	Loss	Shift
2005–07 Revenue Impact:	Not Available	Not Available
2007–09 Revenue Impact:	Not Available	Not Available

DESCRIPTION: Property located on an Indian reservation is generally exempt from property tax. Exempt property must be real property of Indians residing upon reservations who have not severed their tribal relations or taken land in severalty or individual ownership (except lands held by them by purchase or inheritance). Lands owned or held by Indians in severalty on an Indian reservation and their personal property on the reservation are exempt only when provided by federal law.

PURPOSE: To comply with the status of Indians under federal law before statehood.

WHO BENEFITS: Seven reservations are located in 12 counties. Reservation acreage is about 840,000 acres.

EVALUATION: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

2.087 AMTRAK PASSENGER RAILROAD

Oregon Statute: 308.515
Sunset Date: None
Year Enacted: 1983

2005-06 Assessed Value of Property Exempted: $11.4 million

	Loss	Shift
2005–07 Revenue Impact:	$300,000	$100,000
2007–09 Revenue Impact:	$300,000	$100,000

DESCRIPTION: National Railroad Passenger Corporation (Amtrak) property is exempt from property tax as long as federal law prohibits the company from paying property taxes. Amtrak does not own land or structures in Oregon but leases or pays fees for use. The value of personal property (engines and cars) held by Amtrak in Oregon is uncertain. If taxed, this value would likely be computed using an allocation formula based on share of passenger miles traveled in Oregon.

PURPOSE: To comply with federal law.

WHO BENEFITS: Amtrak benefits by not paying property taxes.

EVALUATION: This expenditure achieves its purpose of compliance with federal law. *[Evaluated by the Department of Revenue.]*

2.088 FRATERNITIES, SORORITIES, AND COOPERATIVES

Oregon Statute: 307.460
Sunset Date: None
Year Enacted: 1973

2005–06 Assessed Value of Property Exempted: $28.7 million

	Loss	Shift
2005–07 Revenue Impact:	$400,000	$100,000
2007–09 Revenue Impact:	$400,000	$100,000

DESCRIPTION: Certain property owned by a qualified nonprofit corporation, such as a fraternity, sorority, or cooperative housing organization, is exempt from property taxes imposed by schools, educational service districts, and community colleges. The property must be rented exclusively to students who attend an accredited educational institution and student occupancy must be nondiscriminatory. An application is required to claim the exemption. If an exempt property loses qualified status, the owner is required to notify the assessor. If notification is not provided and the property is disqualified, additional taxes equal to the tax benefit of the exemption for all exempted prior years plus interest and a 20 percent penalty on the tax amount shall be assessed. The Leased Student Housing Publicly Owned exemption (2.003) covers similar property owned by a public college.

PURPOSE: To help keep college housing costs to a minimum and provide equitable treatment with those students living on campus in publicly owned dormitories [Leased Student Housing Publicly Owned (2.003)].

WHO BENEFITS: About 80 accounts are exempt and are located primarily in Benton, Lane, Multnomah, and Yamhill counties.

EVALUATION: This tax expenditure achieves its purpose and contributes to containing the costs of higher education. Fraternities, sororities, and cooperatives are not-for-profit organizations. They are also important traditional components in the housing supply for colleges and universities. These organizations provide the second largest option for campus student housing (dormitories are the first). Consequently, this exemption is valuable in supporting higher education. It is a fiscally effective means of achieving its purpose. *[Evaluated by the Oregon University System.]*

2.089 RURAL HEALTH CARE FACILITIES

Oregon Statutes: 307.804
Sunset Date: None
Year Enacted: 2001

2005-06 Assessed Value of Property Exempted: $2.0 million

	Loss	Shift
2005-07 Revenue Impact	Less than $50,000	Less than $50,000
2007-09 Revenue Impact	Less than $50,000	Less than $50,000

DESCRIPTION: Real and personal property of a rural health care facility is exempt from property taxation if the property constitutes new construction, new additions, new modifications, or new installations of property as of the first assessment date for which the facility is in service. Land and other existing property are not exempt. The exemption lasts three years, but the taxpayer must file its intention to take the exemption each year. The county must approve the exemption but each affected taxing district has the option of granting the exemption.

A rural health care facility is one that is located in a rural health service area with an average travel time of more than 30 minutes from a population center of 30,000 or more, as determined by the Office of Rural Health, and is used exclusively to provide medical care.

PURPOSE: To promote health care in rural areas.

WHO BENEFITS: Owners of health care facilities in rural Oregon.

EVALUATION: Not evaluated.

2.090 LONG-TERM CARE FACILITIES

Oregon Statute: 307.808
Sunset Date: None
Year Enacted: 1999

2005–06 Assessed Value of Property Exempted: $2.5 million

	Loss	Shift
2005–07 Revenue Impact:	$100,000	Less than $50,000
2007–09 Revenue Impact:	$100,000	Less than $50,000

DESCRIPTION: A property tax exemption is allowed for certain long-term care facilities and adult foster homes. The long-term care facilities must have an average residency rate of at least 50 percent of residents eligible for Medicaid. The adult foster homes must have an average residency rate of at least 60 percent of residents eligible for Medicaid. Each long-term care facility and adult foster home will be required to get the exemption from each taxing district. The facility will only receive a property tax exemption from those taxing districts granting the exemption. Both real and personal property can be exempt from the long-term facilities, which include nursing facilities, assisted living, or a residential care facility. The owner of the facility must file with the county assessor a copy of a certificate issued by the Senior and People with Disabilities Cluster of the Oregon Department of Human Services.

PURPOSE: ORS 307.808 states that "…owners of long term care facilities who devote substantial proportions of those facilities to providing long term care to residents eligible for medical services under Medicaid provide an essential community service. The Legislative Assembly declares that a property tax exemption will enable these essential community provider long term care facilities to increase the quality of care provided to facility residents."

WHO BENEFITS: One facility in Eastern Oregon receives this exemption.

EVALUATION: This tax expenditure has not achieved its purpose during its first year of operation. The exemption process has two parts. The Seniors and People with Disabilities Cluster certifies that the long-term care facility met the Medicaid residency criteria during the previous calendar year. They certified 225 facilities in 25 counties as having met the residency criteria during 1999. The local taxing districts grant the property tax exemption; however, none has granted an exemption as of July 31, 2002. *[Evaluated by the Department of Human Services.]*

2.091 STRATEGIC INVESTMENT PROGRAM (SIP)

Oregon Statute: 307.123
Sunset Date: None
Year Enacted: 1993, Modified in 2005 (SB 879)

2005–06 Assessed Value of Property Exempted: $4.7 billion

	Loss	Shift
2005–07 Revenue Impact:	$119,300,000	$20,100,000
2007–09 Revenue Impact:	$128,500,000	$21,800,000

DESCRIPTION: If the total assessed value of a business firm's qualified new investment is above a certain threshold, the qualified property is exempt from tax for 15 years. In rural areas, this threshold is $25 million; inside the urban growth boundaries of the state's larger metropolitan areas, it is $100 million.

Counties must first request that the Oregon Economic and Community Development Commission establish a strategic investment zone, defined as a geographic area within which the property of eligible projects may be exempt from property taxation under the Strategic Investment Program (SIP). Business firms are then able to apply to the Commission for all projects they wish exempted under SIP.

The business firm must enter into a first-source hiring agreement with local publicly funded job training providers. In addition, the investments must benefit a traded sector industry, which is one that sells goods or services in markets with national or international competition, including but not limited to manufacturing.

PURPOSE: "…to improve employment in areas where eligible projects are to be located and [the Legislative Assembly] urges business firms that will benefit from an eligible project to hire employees from the region in which the eligible project is to be located whenever practicable." (ORS 285C.603).

WHO BENEFITS: There are four ongoing SIP projects -- two in Multnomah County and two in Washington County. One project dominates the program and has been approved for a large addition to its SIP beginning in the 2007-09 biennium. All of the ongoing projects have been investments in large, high-technology semiconductor fabrication facilities.

Three rural SIP projects were approved in 2006 and should begin to receive exemptions during the 2009-11 biennium. These projects are in different industries and include proposed developments in Clatsop and Union counties.

IN LIEU: Businesses that have value exempt pay a portion of the property taxes saved in the form of annual community services fees. These and other fees imposed in the local agreement are used for a variety of public purposes.

EVALUATION: The program appears to achieve its goal of leveling the proverbial playing field and thus encouraging extraordinarily large, highly capital-intensive investment in Oregon, particularly in high-technology industries.

A key question in evaluating this expenditure is whether or not the investments receiving tax benefits under this program would have been made without the program. That question cannot be answered with certainty, but both state and local officials have seen evidence that this program was crucial for Oregon locations being chosen as the site for exceptionally large investments in new property and for keeping key existing industries in the state. The fact that local officials have thoughtfully approved 11 applications under the program suggests that these local officials consider these tax expenditures to have a net positive value on their communities. Also, a very sizable increase in state income tax and corporate excise tax revenues can be attributed to this program.

Economists have a range of opinions as to whether or not industrial investment tax incentives such as this are beneficial to local, regional, and national economies. Some claim that such incentives merely benefit participating companies, who receive lower tax bills at the expense of the participating jurisdictions that either receive lower tax revenue or must charge existing taxpayers more than otherwise. Other economists claim that both participants gain from the arrangement, with companies paying more reasonable taxes in communities that place a higher value than other communities on obtaining the companies' jobs, local purchases and other benefits, and that these incentives generally stimulate growth and competitiveness.

With the 2003 Law, the lower rural threshold of $25 million was added, so that the program might see greater diversity in terms of geography and industry types, and to provide an alternative to enterprise zones for relative huge projects in rural areas. SIP offers a more flexible tool and politically better process compared to enterprise zone tax incentives in some cases for very large and controversial developments. For rural areas, this could be a vital new tool, and even outside of rural areas, $25 million still signifies an unusually large, and special project. Recent events indicate that this rural version of SIP is having the desired effect.

As part of this change in 2003, special service districts were given an explicit place in terms of the distribution of community service fees for future eligible projects. *[Evaluated by the Economic and Community Development Department.]*

2.092 VERTICAL HOUSING DEVELOPMENT ZONE

Oregon Statutes: 285C.450
Sunset Date12-31-15
Year Enacted: 2001, Modified in 2005 (HB 2199)

2005-06 Value of Property Exempted: $0.4 million

	Loss	Shift
2005-07 Revenue Impact:	Less than $50,000	Less than $50,000
2007-09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: A partial property tax exemption is available for qualified residential housing combined with nonresidential uses in a vertical housing development zone. A vertical housing development zone is a designated area sponsored by a city or county that has been approved by Oregon Housing and Community Services (OHCS).

The qualified project must consist of a multiple-story building or group of buildings including at least one multiple-story building, containing nonresidential and residential space in any proportion. The partial property tax exemption depends on the number of “equalized” floors, calculated by the ratio of residential to nonresidential space. If the project consists of one equalized floor of residential housing, it is 20 percent exempt; with two equalized floors, it is 40 percent exempt; with three equalized floors, it is 60 percent exempt; and with four or more equalized floors, the project is 80 percent exempt. The exemption lasts for a maximum of 10 years. If any of the residential floors are converted to commercial space, the project may receive a reduced exemption or be disqualified.

A project may be new construction or rehabilitation of an existing building. The exemption applies only to the improvements on the property, unless there are residential units in the project that restrict the income of the residents. The land on which a project is located may be included in the partial exemption if the project restricts participation at least a portion of the residential units to low-income persons or families (defined as income 80% or less of median income, adjusted for family size). Land adjacent to or surrounding the low-income residential project contained in separate tax lots, excess, or surplus land that is not necessary for the project is not eligible for partial exemption.

Certain special taxing districts may elect not to participate. The vertical housing development project owes the complete tax to special taxing districts that do not participate in the vertical housing development zone.

PURPOSE: To encourage investment in and rehabilitation of properties in targeted areas of a city or community, to augment the availability of appropriate housing, and to revitalize communities.

WHO BENEFITS: Property owners of approved projects receive short-term partial property tax exemptions. Individuals and businesses in the zone benefit from increased investment in their community.

EVALUATION: This is a relatively new program and there has not been adequate time to assess the success of the Program. OHCS has seen several local jurisdictions implement the vertical housing zones and are aware of several projects under construction in those zones. Since OHCS received the program, none of the projects are far enough along in development to have requested the partial property tax exemption from the assessor. Once projects begin requesting the partial exemption from the assessor in the newly established zones, the local jurisdictions will be able to provide input as to whether the partial property tax exemption was successful in bringing revitalization to the community.

There has not been adequate time to assess if the partial property tax exemption provided by this program is the most fiscally effective means of providing local jurisdictions with a tool to incentivize developers to build in areas where they typically may not build. *[Evaluated by the Housing and Community Services Department.]*

2.093 NEW HOUSES IN DISTRESSED AREA

Oregon Statute: 307.664
Sunset Date: 6-30-15
Year Enacted: 1989, Modified in 2005 (SB 847)

2005–06 Assessed Value of Property Exempted: $206.0 million

	Loss	Shift
2005–07 Revenue Impact:	$6,300,000	$900,000
2007–09 Revenue Impact:	$6,800,000	$1,000,000

DESCRIPTION: A city may grant a property tax exemption for newly constructed owner-occupied single-unit housing with a market value of no more than 120 percent of the median sales price of dwelling units within the city. A city government may reduce the 120 percent by resolution. Homes built in designated distressed urban areas can be exempt from property tax for up to 10 successive tax years. Only the value of the dwelling is exempt; the land remains taxable. A distressed area is designated by the city and may include deteriorated, unsafe, or abandoned structures that are detrimental to the safety and health of the community. A manufactured structure is eligible if it meets the definition of "needed housing" contained in ORS 197.307 (5) (a) to (f).

Approved property is exempt from city property taxes. The exemption also applies to the taxes of all districts who pass resolutions supporting the exemption and when the total combined rate of taxation of the city and agreeing taxing districts equals at least 51 percent.

To qualify for the exemption, the single family housing must:

- be constructed after January 1, 1990, and before July 1, 2015,
- be used as a dwelling for one person or family, and
- have a value that is no more than 120 percent of the median sales price of single family homes located in the city.

To grant an exemption, a city must do all the following:

- adopt a resolution or ordinance,
- designate a distressed area,
- adopt standards and guidelines,
- approve applications, and
- certify approved exemptions to the assessor.

The property owner must file an application with the city to claim the exemption. A change of use will disqualify the property from the program. Upon disqualification, an additional tax equal to the tax benefit in the last year exempt multiplied by the number of years exempt (10 maximum) is due.

PURPOSE: To "stimulate the construction of new single-unit housing in distressed urban areas in this state in order to improve in those areas the general life quality, to promote residential infill development on vacant or underutilized lots, to encourage home ownership and to reverse declining property values" (ORS 307.654).

WHO BENEFITS: Most of these accounts are in the Portland area. In 2006, there were 2,090 accounts with this exemption in Multnomah County. The average exempt property value per account was about $95,000. This exemption provided an estimated average tax benefit of about $1,600 per year.

EVALUATION: This expenditure achieves its purpose. The program is relatively efficient to administer in comparison with other types of housing funding. There is no need to channel funding through different layers of government and minimal need to establish larger bureaucratic mechanisms to develop program guidelines or to review for program eligibility. The home either qualifies, or it doesn't. The exemption is intended to provide an incentive for builders to build housing they would not otherwise build in distressed areas by providing to the purchaser of a qualifying home a full property tax exemption on the building for 10 years. Whether any given home would or would not have been built without the benefit of the exemption is difficult to determine. The popularity of the program with builders suggests that the exemption functions well.

A major advantage of tax exemptions over a direct expenditure is the ability to tie the exemption to the specific project with little risk to the city. If the project is not constructed, the assistance is not tied up pending the fate of the project in the way a direct budgeted funding commitment would be. In other words, there is no lost opportunity of funds committed to a project that is not constructed; nor is there any lost revenue.

Additionally, the program provides an additional incentive that helps to design housing in ways consistent with local policy.

The program is available to both for profit and nonprofit housing developers. It is governed by state enabling legislation that carries a ten-year sunset date. Local programs can be designed with a variety of monitoring and evaluative controls. *[Evaluated by the Housing and Community Services Department.]*

2.094 REHABILITATED HOUSING

Oregon Statute: 308.459
Sunset Date: 6-30-08
Year Enacted: 1975

2005–06 Assessed Value of Property Exempted: $26.8 million

	Loss	Shift
2005–07 Revenue Impact:	$800,000	$100,000
2007–09 Revenue Impact:	$900,000	$100,000

DESCRIPTION: A city or county may exempt from property tax any value that is attributed to the rehabilitation of housing or conversion of buildings for housing (single or multi-family) for 10 years. To be eligible for the partial exemption:

- If the housing was built on or before January 1, 1961, it must have undergone rehabilitation during or after September 1975, and before January 2008. The rehabilitation must have cost at least 5 percent of the assessed value of the property before rehabilitation.

- If the housing was built after January 1, 1961, it must have undergone rehabilitation after October 1989, and before January 2008, that cost at least 50 percent of the assessed value of the property before rehabilitation.

In addition, the property (land and improvements) must:

- fail to comply with one or more standards of applicable building or housing codes,
- be residential units of which at least 50 percent are for nontransient occupants,
- be in a designated distressed area if owner occupied, and
- be approved for exemption by the city or county.

To grant an exemption, a city or county must:

- Adopt the procedures in the statutes;
- Adopt standards for eligible rehabilitation including, if desired, negotiation of rents charged during the exemption period;
- Accept both preliminary and final applications;
- Approve or disapprove applications, giving reasons for its actions; and
- Certify approved exemptions to the assessor.

A property's value is frozen at its value before rehabilitation for 10 years. However, if the owners of the property participate in a low-income rental assistance contract with a government agency, the city may extend the limited assessment through December 31 of the assessment year during which the termination date of the contract falls. Qualified property is generally exempt only from city or county taxes. However, if districts representing at least 51 percent of the taxes on the property pass resolutions supporting the exemption, then the exemption applies to the taxes of all districts.

PURPOSE: To "encourage the rehabilitation of existing units in substandard condition and the conversion of transient accommodation to permanent residential units and the conversion of non-residential structures to permanent residential units in order to make these units sound additions to the housing stock of the state" (ORS 308.453).

WHO BENEFITS: Multnomah County reported 127 rehabilitation properties in 2006, which shows a decrease from the 192 properties in 1998–99. Multi-family housing accounts for a substantial share of the value exempted.

EVALUATION: This expenditure achieves its purpose. This is a relatively older tax exemption program, and it offers a greater track record than others. The exemption is intended to provide an incentive for investor owners of rental properties to preserve and rehabilitate qualified housing that might not otherwise be improved and to provide a similar incentive as that granted to owner occupants of housing in distressed areas [New Houses in Distressed Area (2.093)].

The owner applies for the exemption up front, during the building permit phase of the conversion or rehabilitation project. An inspector comes to the property, makes the necessary determination that the property is not in substantial compliance with applicable codes, and assesses what changes need to be made to bring the development into substantial compliance. The owner then undertakes the prescribed work, agrees to limit the rate of investment return from rents to 10 percent per year, and receives the rehabilitation exemption in return. The requirements that the development be out of code compliance at the beginning of the project and the participating owner's rate of investment return be limited act as a restriction on the level of rents charged or other possible abuse of the exemption.

After the 10 year exemption, the property comes back onto the tax rolls at its new, higher value, increasing revenues to the taxing jurisdictions. Tenants, property owners, and local governments all benefit in the long term. When looking at the increased use of this exemption in the Portland area alone, it is easy to see the magnitude of change has occurred in large part to this exemption program. It has the added advantage of being easy to access and easy to administer. Determination of a home or development's qualification for the exemption is easily made. This tax exemption appears to be both a fiscally effective and an efficient means of achieving its public purpose. *[Evaluated by the Housing and Community Services Department.]*

2.095 MULTI-FAMILY RENTAL HOUSING IN CITY CORE

Oregon Statute: 307.612
Sunset Date: 12-31-11
Year Enacted: 1975, Modified in 2005 (SB 839)

2005–06 Assessed Value of Property Exempted: $355.6 million

	Loss	Shift
2005–07 Revenue Impact:	$11,100,000	$1,700,000
2007–09 Revenue Impact:	$13,300,000	$2,000,000

DESCRIPTION: A city may grant a property tax exemption for multiple-family rental housing (excluding land) in specific areas for up to 10 years or for a longer period if the state or federal government subsidizes rent. Cities may designate light rail station areas or transit oriented areas in addition to downtown core areas. Counties may designate light rail station areas or transit oriented areas but not core areas. Housing includes newly constructed housing and conversions to housing. To grant an exemption a city must:

- adopt the procedures in the statutes,
- designate the eligible area,
- adopt standards for eligible developments including existing use of property, design, rents, and long-term public benefits,
- provide and accept applications,
- hold public hearings to determine whether proposed projects would be built without property tax benefits, and
- approve or disapprove applications, giving reasons for its actions.

Approved property is exempt from city or county property taxes. The exemption also applies to the taxes of all districts who pass resolutions supporting the exemption and when the total combined rate of taxation of the city or county and agreeing taxing districts equals at least 51 percent. The exemption does not include the land or any improvements not part of the multiple-unit housing, but may include parking constructed as part of the multiple-unit housing construction, addition or conversion. In the case of a structure to which improvements are added or the structure is converted, only the addition or conversion value is exempt. Construction is to be completed by January 1, 2012, but an extension is possible.

Any city over 300,000 in population (i.e., Portland) may include urban renewal land and land near the central business district within its eligible core area.

See Low-Income Multi-Unit Housing (2.096) for additional provisions associated with this exemption.

PURPOSE: To "stimulate the construction of rental housing in the core areas of Oregon's urban centers to improve the balance between the residential and commercial nature of those areas..." and to have city programs emphasizing the "development of vacant or underutilized sites in the core areas..." with "rental rates accessible to a broad range of the general public" (ORS 307.600).

WHO BENEFITS: In 2005, Multnomah County reported 313 exempt properties, and Lane County reported 13 exempt properties.

EVALUATION: This expenditure achieves its purpose. This is a relatively older tax exemption program that offers a long track record to judge its success. The exemption offers an incentive for developers to construct or convert to rental housing developments they would not otherwise construct or convert in city downtown core areas. The burden of proof falls on the developers as to whether any given development would have been built without the benefit of the exemption. This point must be demonstrated through a series of public hearings. The exemption is popular, but the process for either seeking or receiving qualification for the exemption is expensive and time consuming. Salem, for example, still presently has only one property that has this exemption for a total of 92 units (Salem has had a total of three since the exemption was created). The exemption expires in 2001. Two attempts have been made in the last few years to gain approval for a housing development in Salem's Downtown Urban Renewal District. The first time, the city approved the project but the county had not adopted a resolution supporting the exemption. The second proposal was withdrawn with the developer citing the time and expense involved in the process as being too prohibitive. Eugene has seven properties that are exempt under this program.

The process for obtaining the exemption is cumbersome. The city of Portland charges $5,000 per application to help offset the costs associated with qualifying a property for the exemption. The city holds three hearings on the application and must ultimately adopt a city ordinance to approve it. The Portland Development Commission and the city of Portland both get involved in detailed analysis and negotiations to ensure the exempted property provides such public benefits as: 1) reduction of rents, 2) a limited rate of return on investment to the developer and the subsequent owner of only 10–12 percent per year, and 3) public art, landscaping, child care, or set-asides of land for public parks. Although developments need only 10 units or more to qualify for the exemption; the complexity of the process makes it impractical for all but large developments. Therefore, the exemption tends to exclude smaller projects and less sophisticated housing developers.

No limit exists for how expensive the exempted units may be as long as the overall development is located in a qualifying geographical area, would not be so located without the exemption, and serves some public purpose. The hearings process is designed to ensure that these requirements are met, but the Portland hearings have rarely attracted any significant public input. As a result, exemptions have been entered on the Portland City Council's consent calendar for relatively summary disposition. The proposed project in Salem, on the other hand, attracted a great deal of opposition, primarily because the plan was for high-end condominiums on the riverfront.

The exemption seems to perform a solid public purpose, but is subject to a locally designed approval process. *[Evaluated by the Housing and Community Services Department.]*

2.096 LOW-INCOME MULTI-UNIT HOUSING

Oregon Statute: 307.612
Sunset Date: 12-31-11
Year Enacted: 1999, Modified in 2005 (SB 839)

2005–06 Assessed Value of Property Exempted: Included in 2.095

	Loss	Shift
2005–07 Revenue Impact:	Included in 2.095	Included in 2.095
2007–09 Revenue Impact:	Included in 2.095	Included in 2.095

DESCRIPTION: This expenditure is an addition to the Multi-Family Rental Housing in City Core (2.095) expenditure. A city may exempt from property tax any building operated as low-income rental housing under a low-income assistance contract with the state or federal government, or a facility that has been converted into multiple-unit housing for low-income residents in a city or county that has adopted an ordinance.

An exemption is allowed only when the city or county has designated an area in which exemptions may be granted and has approved the exemption application. Applications must have been received for tax years beginning July 1, 2000, or later, and received through January 1, 2012.

PURPOSE: To provide an incentive to maintain or expand the supply of low-cost rental housing.

WHO BENEFITS: Owners of low-income rental housing complexes, who otherwise may have been forced to cease renting to low-income tenants.

EVALUATION: The tenants of subsidized housing are of very low income and would have very limited opportunities in finding replacement housing at the same subsidized rents without this program. *[Evaluated by the Department of Housing and Community Services.]*

2.097 NEW HOUSING FOR LOW-INCOME RENTAL

Oregon Statutes: 307.517 and 307.518
Sunset Date: 12-31-09
Year Enacted: 1989

2005–06 Assessed Value of Property Exempted: $34.9 million

	Loss	Shift
2005–07 Revenue Impact:	$1,100,000	$200,000
2007–09 Revenue Impact:	$1,200,000	$200,000

DESCRIPTION: Newly constructed rental housing occupied by low-income persons or held for future development as low-income rental housing is exempt from property taxes for 20 years if the property is:

- located in a city or county that adopts state statutes,
- built after the city or county adopts state statutes, and completed prior to January 1, 2010,
- approved by the city or county upon application,
- rented only to persons with income at or below 60 percent of area median income based on U.S. Department of Housing and Urban Development criteria, and
- rented at rates that reflect the full property tax reduction.

The owner may be either a for-profit business or nonprofit entity. Leasehold interests qualify if the lease requires payment of property tax or the rent reflects the exemption tax savings. In addition, low-income rental residences owned by a nonprofit public benefit or religious corporation under state law (rather than as a federal 501(c)(3) nonprofit) are exempt provided the corporation uses 90 percent of its rental income for repair, purchase, or onsite daycare services for the residents.

Approved property is exempt only from city or county taxes. To exempt all property tax, districts levying 51 percent or more of the taxes on the property must pass a resolution to approve the exemption.

PURPOSE: To encourage for-profit businesses to develop low-income housing by providing an exemption similar to that available to nonprofit organizations in cities adopting an exemption program under ORS 307.541 [Nonprofit Low-Income Rental Housing (2.098)].

WHO BENEFITS: About 80 properties in Baker, Douglas, Jefferson, Lane, Washington, and Yamhill counties are exempt under this provision.

EVALUATION: This expenditure is critical to the viability of many low-income housing developments; it achieves its stated purpose. The exemption reduces the operating expenses for the provider of low-income housing, thereby resulting in lower rents. Without this assistance in lowering rents, some Oregonians could not afford decent housing; in some cases, this housing would not be built.

Where a taxing jurisdiction has adopted the authorizing provisions, the process by which it grants the exemption is quite straightforward; if a development meets the criteria, it receives the benefit of the exemption. It is relatively easy to administer once in place. However, some jurisdictions have not adopted the authorizing provisions because the extent of their ability to add constraints to existing criteria for granting exemptions has not been clearly established. An amendment clarifying the ability of local governments to add additional criteria or to shorten the length of the exemption would be of value in encouraging more local governments to adopt and use this exemption.

The taxing entity typically requires an annual report of tenant income levels and the rental rates being charged in exempted developments. This helps ensure fulfillment of the requirement that the project rental rates reflect the full property tax reduction and prevents possible abuse of the exemption by developers or development owners.

After the 20-year exemption, the entire property comes onto the tax rolls at its full assessed value. Tenants, property owners, and local governments benefit in the long term.

Since Measure 50 took effect in 1997, property tax exemptions have caused actual revenue losses to local governments. Prior to Measure 50, exemptions did not decrease local tax revenues because other property tax payers paid at a higher tax rate to compensate. Despite the loss to local governments caused by Measure 50, local governments have elected to increase the exempted value significantly since Measure 50.

This exemption enables local governments to contribute to providing affordable housing in their communities without raising additional revenue and spending it on affordable housing. The administrative costs of this exemption are likely less than would be incurred through a direct program developed to achieve this objective. This exemption fits well with other direct and indirect spending programs for affordable housing assistance. The exemption is both fiscally effective and an efficient means of achieving its public goal. *[Evaluated by the Housing and Community Services Department.]*

2.098 NONPROFIT LOW-INCOME RENTAL HOUSING

Oregon Statute: 307.541
Sunset Date: 6-30-14
Year Enacted: 1985, Sunset extended in 2003 (HB 2535)

2005–06 Assessed Value of Property Exempted: $417.4 million

	Loss	Shift
2005–07 Revenue Impact:	$13,100,000	$2,000,000
2007–09 Revenue Impact:	$15,800,000	$2,400,000

DESCRIPTION: A city or county may exempt low-income rental housing owned or being purchased by a nonprofit corporation from property tax. The property must be in use as housing or must be held for that purpose. Qualifying nonprofit corporations must be exempt from federal income tax [Section 501(c)(3) or (4) of the Internal Revenue Code] and upon liquidation distribute remaining assets to other tax-exempt charitable organizations or the state of Oregon.

Qualified property is exempt only from city or county taxes. To exempt all property taxes, districts levying 51 percent or more of the taxes on the property must pass resolutions to approve the exemption.

The nonprofit corporation must certify that the income levels are below 60 percent of median family income guidelines and describe how the exemption will benefit project residents. No restriction exists on whether the housing is newly constructed, an existing structure, or a rehabilitated structure.

Each year the nonprofit corporation must file an application with the appropriate governing body to claim the exemption. The exemption is only allowed for tax years beginning on or after January 1, 1985, and before July 1, 2014.

This expenditure is similar to New Housing for Low-Income Rental (2.097). The qualifications differ somewhat for each expenditure, but for nonprofit organizations, they may likely qualify under either requirement.

PURPOSE: To encourage nonprofit organizations to help fill the need for low-income housing.

WHO BENEFITS: Nonprofit organizations benefit directly. The tenants of the housing benefit to the extent that below-market rate rental housing is available. In 2005–06 there were over 600 accounts in five counties that qualified for this exemption. Almost all of the exempt property is located in Multnomah County.

EVALUATION: This expenditure achieves its purpose. The exemption is intended to enable community development corporations and other qualifying local nonprofit organizations to provide affordable rental housing for low income households they would otherwise be unable to provide. To qualify for this popular program, the nonprofit submits an application each year for a one-year exemption, renewable indefinitely before the exemption's sunset date as long as the organization, tenants, and property continue to meet the qualifying criteria. The exemption is simple to administer because the criteria are clear: 1) the benefiting organization must be a qualified nonprofit, 2) the benefiting tenants must have qualifying income levels, and 3) the property must consist of qualifying rental housing. Having met these requirements, a nonprofit will receive its exemption. The tax expenditure appears to be both a fiscally effective and efficient means of achieving its goal. These exemptions can be counted as matching funds by the state and other local participating jurisdictions to enable the expenditure of HUD Home Investment Partnerships funds. *[Evaluated by the Housing and Community Services Department.]*

2.099 DISABLED WAR VETERANS OR THEIR SPOUSES

Oregon Statute: 307.250
Sunset Date: None
Year Enacted: 1921, Modified in 2005 (HB 2945)

2005–06 Assessed Value of Property Exempted: $1.0 billion

	Loss	Shift
2005–07 Revenue Impact:	$28,400,000	$4,600,000
2007–09 Revenue Impact:	$31,300,000	$5,100,000

DESCRIPTION: Eligible war veterans or their surviving spouses may have a portion of their homestead or personal property's assessed value exempt from property taxes. The taxpayer must own and live on the property and have disabilities of 40 percent or more. For 2006-07, the exemption amount is $15,000, or $18,000 for veterans with service-connected disabilities. These amounts increase by three percent each year.

The revenue impacts reported here include those real property exemptions for veterans who live in qualified nonprofit homes for the elderly [War Veterans in Nonprofit Elderly Housing (2.100)].

PURPOSE: To recognize the service and sacrifices made by veterans for the country and to compensate veterans for reductions in civilian earning capacity due to disabilities.

WHO BENEFITS: In 2005–06 about 37,300 veterans or their spouses received the exemption.

EVALUATION: This tax expenditure achieves its purpose by providing an additional income benefit to disabled veterans and surviving spouses of all veterans. In many cases, if it were not for this benefit, the veteran or spouse may lose their home or become dependent on social assistance programs. This additional spendable income also helps the local economy.

The expenditure is fiscally effective. It allows disabled veterans and surviving spouses to remain independent and reduces their use of other social programs. *[Evaluated by the Department of Veterans Affairs.]*

2.100 WAR VETERANS IN NONPROFIT ELDERLY HOUSING

Oregon Statute: 307.370
Sunset Date: None
Year Enacted: 1969

2005–06 Assessed Value of Property Exempted: $4 million

	Loss	Shift
2005–07 Revenue Impact:	$100,000	Less than $50,000
2007–09 Revenue Impact:	$100,000	Less than $50,000

DESCRIPTION: Qualified nonprofit homes for the elderly can claim the veteran's real property tax exemption for their residents if they pass the tax benefit through to the eligible individuals in terms of lower rentals. However, veterans or their widows who are residents of nonprofit homes for the elderly do not qualify for the Disabled War Veterans or Their Spouses (2.099) property tax exemption because they do not own their living units. To qualify under this exemption, the home must:

- be nonprofit;
- receive at least 95 percent of its operating revenue (excluding investment income) from residents for living, medical, recreational and social service costs,
- not allow any of its net earnings to benefit any private individual, and
- provide that, if the corporation is dissolved, any remaining assets revert to the state or to an exempt, religious, charitable, scientific, literary, or educational organization.

These are the same homes described under Nonprofit Housing for the Elderly (2.112). However, this exemption relates to the value of the personal property exempt. A claim for exemption must be filed with the county assessor.

Besides the real property veteran's exemption, all personal property of nonprofit homes for the elderly is exempt from property taxation. The exempt value reported here is for personal property of the nonprofit homes only. The real property veteran's exemption is included in Disabled War Veterans or Their Spouses (2.099).

PURPOSE: To extend veteran property tax exemption benefits to those not owning a home but living in a nonprofit home for elderly persons. In addition, the personal property exemption is to encourage housing for the elderly.

WHO BENEFITS: Approximately nine homes in four counties have a personal property exemption.

EVALUATION: This expenditure only partially achieves its purpose. It does allow disabled veterans and spouses who are living in nonprofit homes for the elderly to receive a rent reduction equivalent to the tax reduction for those who own their homes, as described in Disabled War Veterans or Their Spouses (2.099). This benefit may allow disabled veterans and surviving spouses to remain independent and reduce their use of other social programs.

However, there are only about 15 such nonprofit homes for the elderly where disabled veterans and spouses can receive a rent reduction. It would appear that the number of veterans and spouses who can take advantage of this program is quite limited. In addition, we did not have the information to verify that the rent reductions were passed through to the eligible veterans and spouses, although a verification mechanism is in place. According to statute, each nonprofit corporation must provide information to the county assessor to show that the appropriate rent credit was given to each applicable resident. *[Evaluated by the Department of Veterans Affairs.]*

2.101 POLLUTION CONTROL FACILITIES

Oregon Statute: 307.405
Sunset Date: 12-31-07
Year Enacted: 1967

2005–06 Assessed Value of Property Exempted: $3.4 million

	Loss	Shift
2005–07 Revenue Impact:	$100,000	Less than $50,000
2007–09 Revenue Impact:	$100,000	Less than $50,000

DESCRIPTION: A pollution control facility owned or leased by a cooperative or nonprofit corporation and used in connection with its trade or business is eligible for a property tax exemption.

The Environmental Quality Commission certifies the facility cost and the exemption percentage. The exemption lasts 20 years from the date of certification.

A pollution control facility is any land, structure, machinery, equipment, or device that prevents, controls, or reduces air, water, noise, or nonpoint source pollution, solid or hazardous waste, or recycles or disposes of used oil. In most cases, the percentage allocable to pollution control depends on whether the owner earns any income from the facility. Thus, if a pollution control facility, in addition to reducing pollution, has some useful end product, then only a portion of the construction of the facility might be allocated to pollution control.

The program provides an incentive to cooperatives and non-profits for installing pollution control facilities not required under current law; defined as "sole purpose facilities." The program also compensates cooperatives and nonprofits for installing facilities required by the Department of Environmental Quality or by the U.S. Environmental Protection Agency; defined as "principal purpose facilities."

This exemption is a companion to the Pollution Control credit (1.176) on income tax. For-profit companies are eligible for the income tax credit, while nonprofits and cooperatives are eligible for the property tax exemption.

PURPOSE: To "assist in the prevention, control and reduction of air, water and noise pollution and solid waste, hazardous wastes and used oil in this state by providing tax relief..." (ORS 468.160).

WHO BENEFITS: In 2005–06, there were seven pollution control facilities located in five counties. Most of the exempt value was approved before 1983. Only about $1.2 million has been approved since for-profit businesses were denied the choice of a property tax exemption. Thus, the amount exempt is likely to decline over time.

EVALUATION: This expenditure has limited success in achieving its purpose. It attempts to provide, for cooperatives and nonprofits, an incentive similar to the income tax credit available to for-profit businesses [Pollution Control credit (1.176)]. Since 1995, no cooperatives or nonprofits have applied for a property tax exemption. As with the income tax credit, some of the investment qualifying for the property tax exemption is likely a result of the incentive, but most investments would have occurred anyway because law requires them. *[Evaluated by the Department of Environmental Quality.]*

2.102 ETHANOL PRODUCTION FACILITIES

Oregon Statute: 307.701
Sunset Date: 6-30-08
Year Enacted: 1993

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: The real and personal property of an ethanol production facility is exempt from taxation. The exemption is for 50 percent of the assessed value of the property determined under ORS 308.146. The exemption may be claimed for five assessment years. For the exemption to apply, the following conditions must be met:

- the facility is first in the process of construction, erection, or installation as a new facility after July 1, 1993,
- the facility is or will be placed in service to produce ethanol within four years after January 1 of the first assessment year for which the exemption under this section is claimed, and
- within four years after January 1 of the first assessment year for which the exemption under this section is claimed, the facility is or will be certified by the state Department of Agriculture as a facility that produces ethanol capable of blending or mixing with gasoline.

An application must be filed with the county assessor. If production or certification does not occur within the time allowed, the property is not exempt for any tax year. Any prior exemption must be repaid by adding the property to the role as omitted property.

PURPOSE: To encourage ethanol production in Oregon to alleviate dependence on foreign oil, as well as to encourage an alternative method to dispose of agricultural waste.

WHO BENEFITS: Developers of ethanol production facilities. There are potentially three taxpayers who could benefit from this exemption.

EVALUATION: Three ethanol production facilities are being considered for development in Oregon. This exemption might affect whether they are built. *[Evaluated by the Oregon Department of Energy.]*

2.103 ALTERNATIVE ENERGY SYSTEMS

Oregon Statute: 307.175
Sunset Date: 06-30-12
Year Enacted: 1975

2005-06 Assessed Value of Property Exempted: $55.0 million

	Loss	Shift
2005–07 Revenue Impact:	$1,200,000	$200,000
2007–09 Revenue Impact:	$1,500,000	$300,000

DESCRIPTION: Solar, geothermal, wind, water, fuel cell, or methane gas energy systems used for heating, cooling, or generating electricity are partially exempt from local property tax. The amount of exemption is the difference between the value of property equipped with the alternative system and its value if it were not equipped with the system. The exemption applies to all property (residential, business, etc.) except property of businesses whose primary activity is supplying energy.

PURPOSE: To encourage the use of alternative sources of energy by providing a tax incentive. Alternative energy systems often have greater up-front costs than energy systems such as natural gas or electric.

WHO BENEFITS: More than 23,000 residential properties and more than 600 businesses in Oregon have installed solar or other renewable energy systems since the program began.

EVALUATION: It is difficult to measure the impact the tax exemption has made on the number of households and businesses installing equipment that uses solar, wind, hydro, or geothermal energy. The predominant incentives that have encouraged such installations have been the tax credits described in Alternative Energy Devices (Residential) (1.180) and Business Energy Facilities (1.182) available under the income tax. The property tax exemption may work in tandem with those credits. Without the exemption, homeowners and businesses might hesitate to invest in a system that would increase their assessed valuation.

We have no evidence that residential and commercial appraisers account for the property tax exemption in their valuations of property and related equipment. Many of the qualifying business alternative energy systems are complex heat recovery or biomass boiler systems for which the assessment of component value is difficult. *[Evaluated by the Oregon Department of Energy.]*

2.104 WATERCRAFT CENTRALLY ASSESSED

Oregon Statute: 308.515
Sunset Date: None
Year Enacted: 1925

2005–06 Assessed Value of Property Exempted: Not Available*

	Loss	Shift
2005–07 Revenue Impact:	Not Available*	Not Available*
2007–09 Revenue Impact:	Not Available*	Not Available*

* *In certain cases, to conform with taxpayer privacy disclosure laws, revenue numbers are not provided for tax expenditures that may affect at most a few taxpayers. This includes tax expenditures that do not currently affect any Oregon taxpayer, but could at a later date.*

DESCRIPTION: Some watercraft used outside Oregon are partially exempted from property taxation.

The watercraft of water transportation companies (barges, tugboats, excursion boats, etc.) involved in transportation of people or goods on inland waters (including border rivers and coastal bays) are centrally assessed for property taxation by the Department of Revenue. Also, the watercraft of centrally assessed utilities are assessed by the department. To the extent that watercraft of these businesses are used on the high seas or outside Oregon, they are exempt. Trips between inland ports and high seas are treated as high seas use. These watercraft are taxable to the extent they are used on Oregon inland waters.

A related provision, Watercraft Locally Assessed (2.114), allows for special assessment of some other types of commercial watercraft.

Interstate ferries also fall within this exemption.

PURPOSE: To apportion to Oregon the taxable value of watercraft based on their use in Oregon.

WHO BENEFITS: Only a small number of centrally assessed water transportation companies qualify for the exemption.

EVALUATION: Not evaluated.

2.105 HISTORIC PROPERTY

Oregon Statute: 358.505
Sunset Date: 6-30-10
Year Enacted: 1975, Modified in 2005 (HB 2776)

2005-06 Assessed Value of Property Exempted: $1 billion

	Loss	Shift
2005–07 Revenue Impact:	$27,700,000	$4,500,000
2007–09 Revenue Impact:	$29,000,000	$4,700,000

DESCRIPTION: Any growth in value of qualified historic property above its assessed value at the time of application for historic property classification is exempt from property tax for up to 15 years. In effect, the assessed value is frozen at the time of application, and increased value from improvements or inflation is exempt for 15 years. Business property can qualify for a second 15-year exemption if a renovation plan is accepted for seismic upgrade, energy conservation, or disability access. Residential property can also qualify for a second 15-year exemption, but only if the local government opts to allow it (by resolution). The property continues to qualify if it meets minimum standards of maintenance set by the State Historic Preservation Officer and is open to the public at least one day a year.

Applicants must file a preservation plan with the State Historic Preservation Officer describing proposed rehabilitation and maintenance for the next 15 years. They must also pay a filing fee equal to one-third of one percent of the real market value; this helps cover staff and other costs to administer the program.

If the historic property is disqualified, either at the owner's request or from failure to meet the requirements, the tax savings from having a frozen value must be repaid. The additional tax and interest is equal to the sum of the tax benefit received for each year of special assessment as historic property. In addition, if the owner fails to notify the assessor when the property becomes disqualified, the additional tax is increased by a penalty of 15 percent. However, if the property is destroyed by fire or act of God or transferred to a tax-exempt owner, or transferred to a new owner who expressly assents to and continues to implement the preservation plan in effect, no additional tax or penalty is charged. Also, if an owner invests five times the amount of the interest imposed following disqualification in the historic building, they do not have to repay the back taxes.

PURPOSE: To "…maintain, preserve and rehabilitate properties of Oregon historical significance…" (ORS 358.475).

WHO BENEFITS: Currently, there are approximately 1,075 historic properties participating in the program. Commercial projects account for 37 percent of all projects, but, as might be expected, they represent a much higher percentage of the total assessed value (65 percent). Participating properties are in almost every county, but they are concentrated in Multnomah County, accounting for 41 percent of all projects and 80 percent of the total assessed value.

EVALUATION: This expenditure has been very successful in achieving its purpose, but the substantial reduction in property taxes caused by Measures 5 and 50 in the 1990s reduced the incentive for taxpayers to participate in the program. In recent years, however, the program has picked up again. The number of approved applications (70) in 2006 was the highest in over a decade, and well up from the previous year (39). Despite this resurgence, it is doubtful that this expenditure will ever attract the number of applications it did in its heyday of the late 1980s and early 1990s, when an average of 140 projects were approved annually.

Oregon's program is the nation's oldest tax incentive for the preservation of historic property. The incentive attracts both commercial and residential clients, representing all economic groups. The benefit, originally enacted as an anti-demolition incentive, has been used to save hundreds of significant abandoned or economically underutilized historic properties and to revitalize whole areas in communities. Direct investment in rehabilitation, stabilization, or expansion of the work force in historic urban commercial areas, re-use of existing infrastructure, and stabilization or expansion of the existing tax base are all measurable benefits of the expenditure. Other benefits include the preservation of the tangible remnants of Oregon's history, the enhancement of Oregon's quality of life, and the economic development and tourism benefits.

The economic benefits of the program more than offset the costs to local government. Rehabilitation activity might have occurred without the incentive, but certainly not at the pace or extent that has been exhibited in the past. This is especially true of commercial projects, where the incentive is often critical to making projects feasible for business owners and developers.

Despite this success, many potential recipients will not utilize the benefit, particularly in areas of the state with flat economies. Mostly, this is because the effectiveness of the incentive has been greatly reduced by Ballot Measures 5 and 50.

As a result of Measure 50, specially-assessed property owners have seen further reductions in savings because taxable assessed values are no longer directly tied to real market values. Without the potential for double-digit valuation increases on an individual property, the value of the benefit to the owner is reduced. Potential savings are also reduced because improvements classified as minor construction do not change a property's assessed value.

Despite the reduction in benefits, this program continues to provide an attractive incentive for historic building owners. Though the benefit has diminished over time, it still helps offset the high costs of restoring and maintaining some of Oregon's significant historic architecture.

The program has a heavier administrative burden than it should, partly due to the fact that it has been around for 30 years and has been amended a number of times. But overall it still functions quite well.

In terms of other ways to achieve the goals of this program, a direct expenditure, namely grants for restoration, could accomplish some of the purposes, but there would most likely not be a sufficient level of funding to accommodate all worthy projects. Plus, in a competitive grant selection process, it is likely that the applications from smaller and more rural projects would be edged out by more sophisticated and comprehensive applications from urban areas where professional expertise is more readily available.

Another incentive option is a state investment tax credit. A percentage of restoration costs (20 percent, in most states with such an incentive) is applied to the owner's state income tax. The benefit is directly proportional to the owner's investment (which is not true with the current property tax freeze program), and the program would be easier to administer because it would not entail monitoring for 15 years. Thus far, the Governor's Office has not supported the investment tax credit proposal. *[Evaluated by the State Parks and Recreation Department.]*

2.106 AIRCRAFT

Oregon Statutes: 308.558 and 308.565
Sunset Date: None
Year Enacted: 1987

2005–06 Assessed Value of Property Exempted: $356.4 million

	Loss	Shift
2005–07 Revenue Impact:	$9,700,000	$1,600,000
2007–09 Revenue Impact:	$10,500,000	$1,700,000

DESCRIPTION: Generally, aircraft are exempt from property taxation but pay registration fees to the Department of Aviation. Aircraft owned by commercial airlines that weigh less than 75,000 pounds are 40 percent exempt. Transportation company aircraft weighing 75,000 pounds or more are fully taxable and are centrally assessed by the Department of Revenue in proportion to the company's business in Oregon.

PURPOSE: To avoid administrative problems of assessing the value of mobile property.

WHO BENEFITS: The Department of Aviation registers about 6,450 aircraft that are exempt from property tax. In addition, a few air transportation companies own aircraft under 75,000 pounds that are taxed at 60 percent of their assessed value.

IN LIEU: The annual registration fee varies from $37 for a sailplane to $187 for a turbojet. Registration fees as an in-lieu payment will be about $664,326 in the 2005–07 biennium.

EVALUATION: This expenditure achieves its purpose. The user fee principle noted for Motor Vehicles and Trailers (2.060) is similar in concept to the current means of assessing those that benefit from the use of aircraft facilities and services. The user fee principle is believed to be the most equitable practice for assessing fair cost. There are currently various means of assessing those that use airport facilities, such as aircraft registration, fuels tax, tie down fees, and parking fees. Value related taxation would upset the user fee principle.

Another method for taxing aircraft that was considered in the past was an assessment for the use of Oregon air space. However, it was never implemented because it was believed to be too cumbersome a process and too costly to enforce. *[Evaluated by the Department of Aviation.]*

2.107 RAILROAD RIGHT OF WAY IN WATER DISTRICT

Oregon Statute: 264.110
Sunset Date: None
Year Enacted: 1943

2005–06 Assessed Value of Property Exempted: $48.0 million

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: Railroad right of way, improvements, or rolling stock are exempt from property tax imposed by a water supply district.

PURPOSE: To avoid taxing a property owner that would not significantly benefit from a water district's services and might otherwise oppose a district's formation.

WHO BENEFITS: Railroad companies that have property in water supply districts. In 2005 there were 98 water supply districts.

EVALUATION: This expenditure achieves its purpose of not assessing water supply district taxes on specified railroad property. *[Evaluated by the Department of Revenue.]*

2.108 RAILROAD RIGHT OF WAY IN HIGHWAY LIGHTING DISTRICT

Oregon Statute: 372.190
Sunset Date: None
Year Enacted: 1947

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: Railroad right of way are exempt from property taxes imposed by a highway lighting district unless the right of way is at a grade crossing.

PURPOSE: To avoid assessing a property owner that would not significantly benefit from a lighting district's services and might otherwise oppose a district's formation.

WHO BENEFITS: Railroad companies that have property in highway lighting districts. There are very few highway lighting districts in Oregon.

EVALUATION: This expenditure achieves its purpose of not assessing lighting district taxes on specified railroad property. *[Evaluated by the Department of Revenue.]*

2.109 RAILROAD RIGHT OF WAY IN RURAL FIRE DISTRICT

Oregon Statute: 478.010(2)(d)
Sunset Date: None
Year Enacted: 1969

2005–06 Assessed Value of Property Exempted: $183.7 million

	Loss	Shift
2005–07 Revenue Impact:	$600,000	Less than $50,000
2007–09 Revenue Impact:	$700,000	Less than $50,000

DESCRIPTION: Railroad right of way, improvements, or rolling stock are exempt from property tax by a rural fire protection district unless the railroad consents to be taxed.

PURPOSE: To avoid assessing a property owner that would not significantly benefit from a rural fire district and might otherwise oppose a district's formation.

WHO BENEFITS: Railroad companies that have property in fire districts are the beneficiaries. In 2005, there were 270 rural fire districts.

EVALUATION: This expenditure achieves its purpose of not assessing fire district taxes on specified railroad property. *[Evaluated by the Department of Revenue.]*

2.110 DESTROYED OR DAMAGED PROPERTY

Oregon Statute: 308.425 and 308.428
Sunset Date: None
Year Enacted: 1971

2005–06 Assessed Value of Property Affected: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: Under ORS 308.425, if property is destroyed or damaged during the tax year by fire or an act of God, then the property tax is prorated on a monthly basis. If property is totally destroyed, the tax is 1/12 of the total tax for each month or part of a month in the tax year prior to destruction. If the property is damaged, the tax is 1/12 of the total tax for each month prior to damage plus a percent of the monthly tax for each month in the tax year that the property remains damaged. The percentage is the ratio of the value after damage to the value before damage.

Note: This is not an exemption but rather a proration of tax equivalent to a reduced value after the assessment date. The property owner must apply to receive the proration. Relief cannot be granted for a property when the person seeking relief is convicted of arson for the same property.

Under ORS 308.428, if property is destroyed or damaged during the first half of the year by fire or an act of God, the owner may apply to have the property assessed as of July 1 of the year. Normally, property is assessed as of January 1.

PURPOSE: To grant tax relief to those with a total or partial loss of use of the property due to fire or natural causes.

WHO BENEFITS: Property owners whose property is destroyed or damaged by fire or natural causes during the tax year. Counties tend to have fewer than 50 affected properties with the total taxes canceled being under $10,000; some counties do not have any affected properties.

EVALUATION: Not evaluated.

2.111 HOMESTEAD EXEMPTION FOR FEDERAL ACTIVE DUTY MILITARY SERVICEMEMBERS

Oregon Statute: 307.286
Sunset Date: None
Year Enacted: 2005 (HB 2945)

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: Oregon residents who are members of the Oregon National Guard may apply for an Oregon property tax exemption on their homestead of up to $60,000 in assessed value if:

- they are initially ordered to federal active duty (Title 10) on or after January 1, 2005,
- they are serving under Title 32 (National Guard) and are ordered to serve under Title 10 federal active duty, and
- they serve under Title 10 for more than 178 consecutive days during the tax year for which the exemption is claimed.

If the qualified service member was killed in action, the person occupying the service member's home may file for the exemption.

PURPOSE: To assist Oregon households where a member has been called to active military service during the year.

WHO BENEFITS: Households of members of the Oregon National Guard (Title 32) who spend more than half the year on federal active duty service during the tax year.

EVALUATION: The purpose of this tax expenditure is to alleviate tax burdens for members of the Oregon National Guard or Reserve forces while they are deployed on federal active duty for l78 days or more. The intent of this tax expenditure has not been completely fulfilled: the original legislation limited the exemption to those who were activated on or after January 1, 2005. This prevented an exemption for over 550 Oregon National Guard members who were activated for duty in Iraq during November and December 2004. In addition, Reserve forces are governed by Title 10 of the U.S. Code, so they are currently excluded because they do not change status from Title 32 to Title 10. However, new legislation in the 2007 legislative session will attempt to correct the statutory language so that all members of the National Guard and Reserve forces serving our country for extended periods may receive this benefit. *[Evaluated by the Military Department.]*

2.112 NONPROFIT HOUSING FOR THE ELDERLY

Oregon Statute: 308.490
Sunset Date: None
Year Enacted: 1969

2005–06 Assessed Value of Property Exempted: Minimal

	Loss	Shift
2005–07 Revenue Impact:	Less than $50,000	Less than $50,000
2007–09 Revenue Impact:	Less than $50,000	Less than $50,000

DESCRIPTION: The assessed value of a home for the elderly operated by a nonprofit corporation may only be calculated using certain appraisal methods. These methods may not take into account replacement cost, but rather include: the amount of money for which the property may be exchanged in a reasonable period of time, the gross income that could be reasonably expected from the property if leased or rented, and the relative supply and demand for such properties. Use of the gross income method for these properties generally results in lower assessed values than would be arrived at using a replacement cost approach. These lower assessed values result in decreased taxes on these properties.

The nonprofit corporation must be organized and operated to provide permanent residential, recreational, and social facilities primarily for the elderly and receive 95 percent of its gross operating revenue from payments for housing, medical, and recreation services received in its facilities.

PURPOSE: To encourage housing for the elderly. The statutory policy is to recognize "benefits inherent in operation of these homes, especially in the housing and care furnished to elderly persons for whom this state and its political subdivisions otherwise might be responsible..." (ORS 308.490(1)).

WHO BENEFITS: Nonprofit organizations that own elderly residence facilities receive the direct benefit from this expenditure. These facilities are located in Multnomah, Polk, Douglas, Jackson, and other counties. Qualifying facilities may serve a wide range of tenants, and these tenants may have any income level because there is no tenant income requirement.

EVALUATION: Whether this tax expenditure achieves its purpose is difficult to determine without more information. Unlike many other housing-related tax expenditure programs, this does not involve local government decision-making, but rather contemplates that nonprofit owners of qualified housing will deal directly with local assessors. The tax expenditure is intended to encourage owners to provide housing for the elderly that they might not otherwise be able to provide. The program benefits the owner directly through reduced property taxes and the occupants indirectly by ensuring that this form of housing is available to them, presumably at a reduced rate from market rents commensurate with the tax savings. No verification mechanism is in place to ensure this result. Additionally, those active in the provision of affordable housing in the state of Oregon claim this program is not significant in state or local efforts to provide affordable housing. *[Evaluated by the Housing and Community Services Department.]*

2.113 MULTI-UNIT RENTAL HOUSING

Oregon Statutes: 308.704
Sunset Date: None
Year Enacted: 2001

2005–06 Assessed Value of Property Exempted: $138.0 million

	Loss	Shift
2005–07 Revenue Impact:	$4,300,000	$600,000
2007–09 Revenue Impact:	$4,700,000	$700,000

DESCRIPTION: Owners of multi-unit rental housing property that is limited by government restrictions on use may apply for special assessment of the property. The restrictions on use are part of a number of government incentive programs that limit use by restricting rents and qualifying tenants based on income. The property must be residential and consist of four or more units and may not be an assisted living facility. It must be used for rental housing based on qualifying income of renters, which thereby allows the owner to take advantage of a federal low-income housing tax credit, a low interest or government guaranteed loan, rent subsidies, or other government incentive programs. This special assessment was available the first time for fiscal year 2002–03 taxes.

Upon application to the assessor by the owner before April 1 of the assessment year applied for, the owner may select a special assessment calculation method. If the application is submitted between April 1 and December 31, a late fee must accompany the application. The special assessed value may be calculated either by using:

- an annual net operating income approach and a capitalization rate, or
- an adjustment of market value based on the ratio of the average rent of restricted income rental units to the average rent of similar units that do not have tenant income qualifications and limited rents.

The assessed value is then determined as the lesser of the special assessed value, real market value, or maximum assessed value. In the first year applied for, the maximum assessed value equals the special assessed value multiplied by the ratio of maximum assessed value to real market value of properties in the same area with the same property class as the specially assessed property.

PURPOSE: To establish common appraisal methods and tax treatment for multi-unit low-income rental housing complexes in a way that provides tax relief to compensate for the government imposed restrictions on use of such properties. This is similar to the intent of legislators providing special assessment provisions for farm land in exclusive farm use zone areas where use of the land is limited to farming.

WHO BENEFITS: Thirty-two counties reported 480 accounts qualified for this exemption for 2005-06.

EVALUATION: It is anticipated that this expenditure will achieve its purpose. The community of affordable housing developers, consisting of both for-profit and nonprofit organizations, were experiencing economic hardships with the valuation of properties based on the cost of development. The restricted rental incomes of the affordable housing developments throughout the state did not generate enough cash flow to cover property taxes based on valuations related to cost of development. Owners of some newly created developments were forced to access operating reserves as a short-term gap to meet the additional property tax expenses. Without the relief offered through this special assessment, affordable housing developments were at risk of technical or actual default with their primary lenders. Without the relief, these same lenders would be less willing to underwrite new loans without additional subsidies from government entities thereby reducing the number of new affordable units that could be deployed. *[Evaluated by the Housing and Community Services Department.]*

2.114 WATERCRAFT LOCALLY ASSESSED

Oregon Statute: 308.256
Sunset Date: None
Year Enacted: 1925

2005-06 Assessed Value of Property Exempted: $92.2 million

	Loss	Shift
2005–07 Revenue Impact:	$2,500,000	$400,000
2007–09 Revenue Impact:	$2,600,000	$400,000

DESCRIPTION: Oregon private commercial watercraft not involved in transporting people or goods for hire are specially assessed for property tax by county assessors.

- Ships and vessels used on inland waters are specially assessed at 40 percent of assessed value.
- Ships and vessels used on the high seas or between the high seas and inland ports (coastal fishing boats for example) are taxed at 4 percent of assessed value. Off-shore self-propelled oil drilling rigs are also taxed at 4 percent.
- All watercraft under construction or undergoing major remodeling are exempt. Major remodeling exists if the cost exceeds 10 percent of the value of the watercraft before remodeling.

Some types of commercial watercraft are not exempt, and are taxed at 100 percent of assessed value. These include dredges, museum ships, restaurant ships, any vessel used for deep-sea fish reduction or processing (but not canning), and non-Oregon private commercial boats of non-centrally assessed companies. Non-commercial watercraft are included in Small Watercraft (2.056).

PURPOSE: To provide tax relief to Oregon commercial fishermen.

WHO BENEFITS: The Department of Fish and Wildlife issued commercial fishing boat licenses to 1,349 Oregon residents and 460 nonresidents in 2005. This is the major portion of exempt value.

EVALUATION: This expenditure has achieved its purpose, although the exact proportion of fish landed outside Oregon waters is unknown. Many fishing vessels operate in distant water fisheries, but return to Oregon in the off-season. *[Evaluated by the Department of Fish and Wildlife.]*

2.115 WILDLIFE HABITAT

Oregon Statute: 308A.400
Sunset Date: None
Year Enacted: 1993

2005–06 Assessed Value of Property Exempted: $28.3 million

	Loss	Shift
2005–07 Revenue Impact:	$600,000	$100,000
2007–09 Revenue Impact:	$600,000	$100,000

DESCRIPTION: Owners of property zoned as exclusive farm use or mixed farm and forest use or forest use under a land use planning goal protecting agricultural or forest land or land that is clearly identifiable as containing significant wildlife habitat may apply to participate in a wildlife habitat conservation management plan. Application is made to the Department of Fish and Wildlife. By entering into such a plan, the property owner receives the benefit of having the property valued under the farm or forest land special assessment provisions without being required to meet all the farm or forest land special assessment qualifications. See Farm Land (2.120), Western Private Forestland (2.117), or Eastern Private Forestland (2.118) for descriptions of the assessment methods.

Wildlife habitat special assessment is only available in counties or cities that have requested to be in the program. Management plans must be developed in conjunction with a cooperating agency such as the Department of Fish and Wildlife, the Oregon State University Extension Service, or others. The plans must be approved by the Department of Fish and Wildlife. Once approved, the land is assessed at either its farm use or forestland value. If land is disqualified, an additional tax may be required.

Once property is assessed under wildlife habitat special assessment, the property may roll back into the original farm or forest use special assessment without penalty if certain conditions are met. Likewise, farm or forest use specially assessed property may roll into the wildlife habitat special assessment without penalty for leaving the farm or forest use.

PURPOSE: "…to encourage landowners to manage private lands in a sustainable manner …[and] not to impose additional taxes on property, commodities or income if a landowner voluntarily foregoes, limits or postpones economic uses of private land for conservation purposes." (ORS 308A.740)

WHO BENEFITS: The direct beneficiaries are landowners who voluntarily enter into a wildlife habitat conservation and management plan approved by the state Department of Fish and Wildlife. In 2005–06 there were approximately 280 landowners taking part in the program. Land under the program included over 36,000 acres.

EVALUATION: It is too early to evaluate the effectiveness of this exemption in terms of the management and improvement of wildlife habitat on private lands. The provisions for exemption were not fully extended to forestland until adoption of the same 2001 act. Prior to that time, a pilot program was established for agricultural land in Marion and Polk Counties by a 1993 legislative act. The scope of the program was expanded to lands zoned for exclusive farm use or mixed farm and forest use throughout the entire state by a 1997 act, but not made mandatory for the counties. The 2001 act also gave counties the option to affirmatively "opt out" of the program until January 2003. If counties did not opt out by that date, they are in the program. As of January 2003, 22 of the 36 counties had opted out of the program. The 2003 Legislature amended the statute so that cities and counties may request the Department designate areas as eligible for wildlife habitat special assessment. In 2005-07, Washington County has "opted" back into the program. Benton County has added some areas as eligible for wildlife habitat special assessment.

An indication of the effectiveness of the exemption is suggested by results to date in Oregon Department of Fish and Wildlife's (ODFW) South Willamette Watershed District, which includes Marion and Polk counties from the original pilot project. The applicants in this district now include landowners from Benton, Lane, Linn, and Yamhill counties in addition to Marion and Polk counties. According to ODFW data, some 72 landowners and 2,129 acres have been enrolled in the program in that district. *[Evaluated by the Department of Fish and Wildlife.]*

2.116 FOREST HOMESITES

Oregon Statute: 308A.256
Sunset Date: None
Year Enacted: 1989

2005–06 Assessed Value of Property Exempted: $315 million

	Loss	Shift
2005–07 Revenue Impact:	$9,000,000	$1,500,000
2007–09 Revenue Impact:	$12,000,000	$2,000,000

DESCRIPTION: A forest homesite being used in conjunction with growing and harvesting trees on forestland has a special property tax value. The homesite special assessment is the value of one acre. It must be on a parcel of more than 10 acres of highest and best use or designated forestland. The homesite specially assessed value is the average real market value for all contiguous bare forestland (on a per acre basis) under the same ownership, plus up to $4,000 for land improvements. Land improvements include a well and septic system necessary for a homesite.

PURPOSE: To improve the financial viability of growing and harvesting trees on forestland by reducing the cost of taxation. The special assessment grants forest homesites the same treatment as farm homesites.

WHO BENEFITS: Roughly 13,000 forest homesites were specially assessed in 2005–06. The average value exempted was roughly $10,000.

EVALUATION: Extending special forest assessments to forest homesites reinforces the effects of special assessments for forestland. *[Evaluated by the State Forestry Department.]*

2.117 WESTERN PRIVATE FORESTLAND

Oregon Statute: 321.354
Sunset Date: None
Year Enacted: 1977, Modified in 2003 (HB 2188)

2005–06 Assessed Value of Property Exempted: $2.3 billion

	Loss	Shift
2005–07 Revenue Impact:	$47,200,000	$10,300,000
2007–09 Revenue Impact:	$55,100,000	$12,000,000

DESCRIPTION: Forestland is considered either highest and best use forestland or can be designated forestland and is specially assessed. Value is determined for these specially assessed properties by the potential of the land to grow timber. Each acre of land is assigned one of seven productivity classes based on the rate of growth of standing timber or the potential to grow timber.

Highest and Best Use Forestland

The counties identify the highest and best use forestland within their county. These properties receive specially assessment value without the potential of additional taxes due upon change in classification. For these lands, the special assessment value equals the real market value. Therefore, there is no tax expenditure associated with them.

Designated Forestland

These properties have a highest and best use as something other than forest use. The owners of these properties have applied to the county for special designation as forestland. The application contains a signed statement that the owner intends to use this property for the primary purpose of growing and harvesting trees. Lands that do not continue to meet the requirements of this program will be disqualified and be required to repay up to five years tax based on the difference between the tax at special assessment value and the tax at real market value of the property.

Small forestland owners (those that own between 10 and 5,000 acres of forestland) have the option of participating in the Small Tract Forestland Option (2.119).

PURPOSE: To promote the retention of forestland in forest use.

WHO BENEFITS: Owners of forestland. There are approximately 6 million acres of private forestland in Western Oregon.

EVALUATION: The program encourages retention of forestland for forest use. Owners must meet stocking standards of the Forest Practices Act or have a management plan to meet requirements. Owners pay assessment based on 100 percent of the value of land as forestland, so no severance tax is due at harvest.

Forestland owners delay timber harvests for an indeterminate period. During this period, noncommercial values that accrue to the public are maintained and increased, notably wildlife habitat, clean air, clean water, visual quality, etc. *[Evaluated by the State Forestry Department.]*

2.118 EASTERN PRIVATE FORESTLAND

Oregon Statute: 321.833
Sunset Date: None
Year Enacted: 1971, Modified in 2003 (HB 2188)

2005-06 Assessed Value of Property Exempted: $194 million

	Loss	Shift
2005–07 Revenue Impact:	$3,700,000	$800,000
2007–09 Revenue Impact:	$3,700,000	$800,000

DESCRIPTION: Forestland is considered either highest and best use forestland or can be designated forestland and is specially assessed. Value is determined for these specially assessed properties by the potential of the land to grow timber. Each acre of land is assigned one of seven productivity classes based on the rate of growth of standing timber or the potential to grow timber. For highest and best use forestland, the special assessment value equals the real market value.

Highest and Best Use Forestland

The counties identify the highest and best use forestland within their county. These properties receive specially assessment value without the potential of additional taxes due upon change in classification. For these lands, the special assessment value equals the real market value. Therefore, there is no tax expenditure associated with them.

Designated Forestland

These properties have a highest and best use as something other than forest use. The owners of these properties have applied to the county for special designation as forestland. The application contains a signed statement that the owner intends to use this property for the primary purpose of growing and harvesting trees. Lands that do not continue to meet the requirements of this program will be disqualified and be required to repay up to five years tax based on the difference between the tax at special assessment value and the real market value of the property.

Small forestland owners (those that own between 10 and 5,000 acres of forestland) have the option of participating in the Small Tract Forestland Option (2.119).

PURPOSE: To promote the retention of forestland in forest.

WHO BENEFITS: Owners of the affected property. There are approximately 2 million acres of private forest land in Eastern Oregon.

EVALUATION: The program encourages retention of forestland for forest use. Owners must meet stocking standards of the Forest Practices Act or have a management plan to meet requirements. Owners pay assessments based on 100 percent of the value of land as forestland, so no severance tax is due at harvest.
Forestland owners delay timber harvests for an indeterminate period. During this period, noncommercial values, which accrue to the public, are maintained and increased, notably wildlife habitat, clean air and clean water, visual quality, etc.
[Evaluated by the State Forestry Department.]

2.119 SMALL TRACT FORESTLAND OPTION

Oregon Statute: 321.722
Sunset Date: None
Year Enacted: 2003 (HB 2197)

2005-06 Assessed Value of Property Exempted: $1.1 billion

	Loss	Shift
2005–07 Revenue Impact:	$23,300,000	$4,800,000
2007–09 Revenue Impact:	$28,200,000	$5,800,000

DESCRIPTION: Owners of 10 to 4,999 acres of forestland are provided the option of paying the Small Tract Forestland Option tax, rather than receiving special assessment under the Western or Eastern Oregon private forestland programs (see 2.117 and 2.118). Under this program, forestland has a specially assessed value equal to 20 percent of the specially assessed forestland value that designated forestland receives.

The Small Tract Forestland Program consists of two tax programs: an annual *ad valorem* tax and a severance tax due at time of harvest. This expenditure is associated with the *ad valorem* tax.

PURPOSE: To promote the economic and ecological benefits of forests by encouraging small owners to actively manage their forests and hold their timber to maturity before harvest.

WHO BENEFITS: Owners of small tracts of timberland who select this optional tax treatment.

IN LIEU: Participants in the Small Tract Forestland Program are subject to a severance tax paid when timber is harvested from the subject forestland. The severance tax is designed to offset the expenditure due to valuing the forestland at 20 percent. The severance tax rates are indexed annually in proportion to annual changes in small tract forestland assessed value.

EVALUATION: This is a new program, but it is very similar in form to the old land and privilege tax system. Like the old program, the land is assessed at 20 percent of its specially assessed value as forestland, and the remainder of the tax is collected at harvest when the landowner has cash flow. The severance tax differs from the old privilege tax in that it is based on volume harvested not the value of the trees. This will greatly simplify administration and reduce complexity for woodland owners in determining the tax owed. At the same time, it offers to landowners that harvest infrequently an option to pay most of their property tax at harvest when they have a cash flow from the resource lands they own. *[Evaluated by the State Forestry Department.]*

2.120 FARM LAND

Oregon Statute: 308A.050
Sunset Date: None
Year Enacted: 1967

2005-06 Assessed Value of Property Exempted: $8.6 billion

	Loss	Shift
2005–07 Revenue Impact:	$179,400,000	$35,900,000
2007–09 Revenue Impact:	$183,000,000	$36,700,000

DESCRIPTION: Land used exclusively for farming may be specially assessed at its value for farm use instead of its value in its "highest and best use" (ORS 308A.050 to 308A.128).

Farm use value is determined by an income approach. Under this approach, the present value for farm use is calculated using income generated (before property taxes) from comparable properties. This value is converted to present value using the local property tax rate plus the five-year average interest rate charged by the Farm Credit Service (formally Federal Land Bank) on loans for Oregon farm properties.

Farm activity may involve crops, livestock, poultry, fur-bearing animals, honeybees, dairies, animal husbandry, aquatic species, and cultured Christmas trees. Farm use land may also include a woodlot of 20 acres or less, wasteland, land under farm buildings, and ponds. The farmer must intend to make a profit using accepted farming practices.

Eligible farm land is in one of two categories: exclusive farm use farm land inside an exclusive farm use (EFU) zone and non-exclusive farm use farm land outside an exclusive farm use zone (non-EFU). The farm use value of EFU and non-EFU farm land is determined the same way. However, the eligibility and disqualification procedures are different.

Special assessment of EFU farm land is automatic if the land is in an exclusive farm use zone and is in a qualifying farm use. No application is needed. EFU farm land becomes disqualified if it is not in farm use, the land is approved for a nonfarm use allowed in ORS Chapter 215, or the land is rezoned to a non-EFU zone. If land is disqualified, an additional tax may be required. The additional tax is equal to the difference between the taxes assessed against the land and the taxes that would otherwise have been assessed against the land in each of the prior years (up to a maximum) of special assessment. The maximum number of years is 10 for land outside an urban growth boundary and five if inside an urban growth boundary. However, if a disqualifying zone change occurs that is not requested by the owner, no additional tax is imposed.

An application must be filed for special assessment of non-EFU farm land. In addition to being in farm use, non-EFU farm land must be part of a farm unit that earns a minimum gross income from farm use in three of the last five nonflood or nondrought calendar years. For farms of more than 6-1/2 acres but less than 30 acres, the minimum gross income required is $100 per acre. For farm units 6-1/2 acres or less, the minimum income is $650, and for farms of 30 acres or more, the requirement is $3,000.

If land is disqualified, additional taxes may be required. The additional tax is equal to the difference between the taxes assessed against the land and the taxes that would otherwise have been assessed against the land in prior years (up to five) of special assessment. If land is disqualified for current special assessment because the gross income test is not met, the additional taxes are deferred as long as the land remains in limited farm use and one year of additional taxes is abated (forgiven) for each year the land remains in limited farm use.

PURPOSE: To preserve the agricultural economy of the state by offering an incentive for farmers to use their land for agricultural production.

WHO BENEFITS: Owners of farmland benefit directly. In 2005–06, over 154,000 accounts comprising roughly 15.5 million acres of land were assessed at farm use value. Fifteen percent of the acreage is in Western Oregon and 85 percent is in Eastern Oregon. About 86 percent of the acreage was exclusive farm use farm land and 14 percent was non-exclusive farm use farm land.

EVALUATION: The special farm use assessment of land zoned for exclusive farm use is one of the essential tools to achieve Oregon's Agricultural Land Use Policy to preserve the maximum amount of agricultural land in large acreages. The assessment is the primary incentive offered to encourage owners of rural farm lands to hold such lands in exclusive farm use zones (see ORS 215.243). The other primary tool is regulatory: EFU zoning of rural farm land (i.e., agricultural land that is outside Urban Growth Boundaries).The effective protection of agricultural land requires well-coordinated special assessment and land use programs.

The special farm use assessment program can conflict with other aspects of Oregon's land use program - in both urban and rural areas. Inside Urban Growth Boundaries (UGBs), it can discourage timely development by lowering an owner's holding costs, encouraging speculation, and tying up land that is otherwise planned for urban development. Outside UGBs, the requirement to apply for special assessment and meet a minimum income test is a disincentive to property owners to rezone appropriate areas for rural residential development, making development in exclusive farm use zones (where there is no application or income requirement) more attractive to those seeking a rural homesite. This can put pressure on counties to permit more low-density rural residential housing in EFU zones.

The exemption can also raise potential conflicts with the State's urban land use program for EFU-zoned land as applied inside UGBs. Oregon cities are required to have a 20-year supply of land inside their UGBs for future housing, employment, streets, parks, schools, and other urban land needs (Statewide Planning Goals 9 - Economic Development, 10 - Housing, and 14 - Urbanization (OAR 660-015-0000(9), (1) & (14)); ORS 197.296; OAR 660, divisions 007, 008, and 009). Land inside the UGB may retain EFU *zoning* until it is needed for urban development (ORS 197.752), but this land must be *available* for urban development (*i.e.*, annexation and urban zoning), and it must be managed to maintain its potential for efficient and higher-intensity development (Goal 14; ORS 197.296 and 197.752). The special assessment program provides an incentive to keep urban land in farm use, which means that this land may *not* be considered available for urbanization and can put pressure on cities to expand their UGBs onto rural EFU lands when existing farm land inside the UGB is withheld from development.

Further, the passage of Ballot Measure 37, Oregon Laws 2004 (ORS 197.352) may have an impact on the effectiveness of the special farm use assessment program. The program was intended to encourage owners of rural land to keep the land in exclusive farm zones where use of the land is restricted (see ORS 215.243). The property tax savings from farm value assessment can be substantial over long periods of time, and serve as a partial offset for the potential loss of property value from these restrictions on use. Ballot Measure 37, however, requires compensation or waiver of regulations for owners of land in farm zones if land use regulations have restricted the use of the property and had the effect of reducing the fair market value of the property after acquisition. The measure does not take property tax savings from the special assessment into account.

Taking into consideration the impact of Measure 37, as well as other potential conflicts, this special assessment may merit additional review. *[Evaluated by the Department of Land Conservation and Development.]*

2.121 FARM HOMESITES

Oregon Statute: 308A.253
Sunset Date: None
Year Enacted: 1987

2005-06 Assessed Value of Property Exempted: $337.2 million

	Loss	Shift
2005–07 Revenue Impact:	$6,800,000	$1,400,000
2007–09 Revenue Impact:	$7,000,000	$1,400,000

DESCRIPTION: "Homesite" means up to one acre of land including all tangible improvements to the land under and adjacent to a dwelling and other structures, customarily provided in conjunction with the dwelling. It does not include the value of the home built on the land. A farm homesite being used in conjunction with specially assessed farm land has a special assessed property value. However, the housing structure is assessed the same as any other house.

An income test is required for homesites in non-exclusive farm use (Non-EFU) areas. For this reason, very few specially assessed homesites are in these areas.

The homesite specially assessed value is calculated as the average per acre real market value, as defined in ORS 308.205, for the contiguous bare farm land under the same ownership plus up to $4,000 for land improvements. Land improvements would include a well and septic system necessary for a homesite. If disqualified, no additional tax is imposed unless the homesite is established as a non-farm dwelling under ORS 215.236.

PURPOSE: To preserve the agricultural economy of the state by encouraging farmers to live on their property.

WHO BENEFITS: In 2005-06, the number of farm homesites in Oregon is estimated at over 40,500. The average value exempted is approximately $8,000 per homesite.

EVALUATION: Extending special farm assessments to farm homesites reinforces the effects of special assessments for Farm Land evaluated in 2.120. *[Evaluated by the Department of Land Conservation and Development.]*

2.122 OPEN SPACE LAND

Oregon Statute: 308A.300
Sunset Date: None
Year Enacted: 1971

2005-06 Assessed Value of Property Exempted: $46 million

	Loss	Shift
2005–07 Revenue Impact:	$1,000,000	$200,000
2007–09 Revenue Impact:	$1,000,000	$200,000

DESCRIPTION: Open space land is specially assessed for property tax as though its current highest and best use is open space use rather than an alternative use. The exempt value is the difference between value in an alternative highest and best use and the specially assessed value which considers only the value under its current open space use. Improvements on open space land do not receive special assessment (Chapter 493, 1971).

Open space land is any land designated as open space in an official comprehensive land use plan or any land that, if preserved in its present use, would accomplish one of the following:

- conserve and enhance natural or scenic resources,
- protect air, streams, or water supply,
- promote conservation of soils, wetlands, beaches, or tidal marshes,
- conserve landscaped areas, such as golf courses,
- enhance the value of neighboring parks, forests, wildlife preserves, or other open space,
- enhance recreation opportunities,
- preserve historic sites,
- promote orderly urban or suburban development, or
- retain land in its natural state under conditions required by the legislative body granting the open space classification.

Open space land may be changed from one open space use to another without paying back taxes. However, if land is withdrawn from open space classification, any tax benefits received from open space classification in previous years must be paid back plus 8 percent annual interest. The amount of the payback is based on the difference between the assessed value in an alternative use and open space value in the year of withdrawal (ORS 308A.318).

PURPOSE: To preserve open space and its vegetation for public health and enjoyment. The exemption is also to prevent the forced conversion to more intensive use because of high property taxes based on an alternative use value.

WHO BENEFITS: Owners of the 417 open space properties reported by county assessors.

EVALUATION: This exemption appears to achieve its purpose. The exemption encourages the preservation of open space and park land. Little information exists that would allow an in-depth evaluation of these programs, but as a matter of public policy, this program contributes to the special quality of life in Oregon and helps meet the needs of our growing population for open spaces, greenways, natural settings, and recreational facilities. The program also supplements what the government can provide by encouraging land management decisions that contribute to the public good by nongovernment entities. *[Evaluated by the State Parks and Recreation Department.]*