



# East Portland Action Plan

## Property Tax Inequity Analysis

As presented by the: East Portland Action Plan (EPAP) Housing Subcommittee

Date of Release: February 2014

### **RECOMMENDATION**

The EPAP Housing Subcommittee found that property tax limitation measures initiated in the 1990s have resulted in serious tax inequities for East Portland residents and that they are damaging to revitalization efforts in East Portland. The EPAP Housing Subcommittee recommends amending Oregon property tax law to “reset the assessed property value on sale” as the fairest, feasible approach to overcoming this inequity.

### **INTRODUCTION**

EPAP action item EQ.1.1 states, “Initiate a citywide audit of resource allotment – research tax equity and contributions of East Portland to the tax base.” The Housing Subcommittee of the East Portland Action Plan (EPAP) began researching property tax inequity in 2013.

### **BACKGROUND**

In the 1990s, Oregon voters passed three ballot initiatives that limit property taxes. One of the unforeseen effects of those tax limitations is that many East Portland homeowners pay much more in property taxes than owners of comparable properties in other parts of town. In his blog post, “Our Goofy Property Tax System,” City Commissioner Steve Novick writes, “You can literally have one property owner in the outer East Side paying \$3,000 in taxes on a house that is actually worth \$200,000, and someone in inner Northeast paying \$600 in taxes on a house worth \$300,000.”

### **REASONS FOR TAX INEQUITY**

**The primary reason for the property tax inequity is that East Portland property values are increasing slower than other parts of the city:**

According to the 1990s initiatives, assessed value is tied to the 1995 value of a property and cannot increase by more than 3% per year. In areas of Portland other than in East Portland, property values have increased by far more than 3%—for example in many inner eastside neighborhoods property values may have increased by 30% or more. However, in East Portland, property values have increased very slowly—and in some cases property values have actually dropped. In the areas of Portland with rapid increases, the additive amount is never taxed

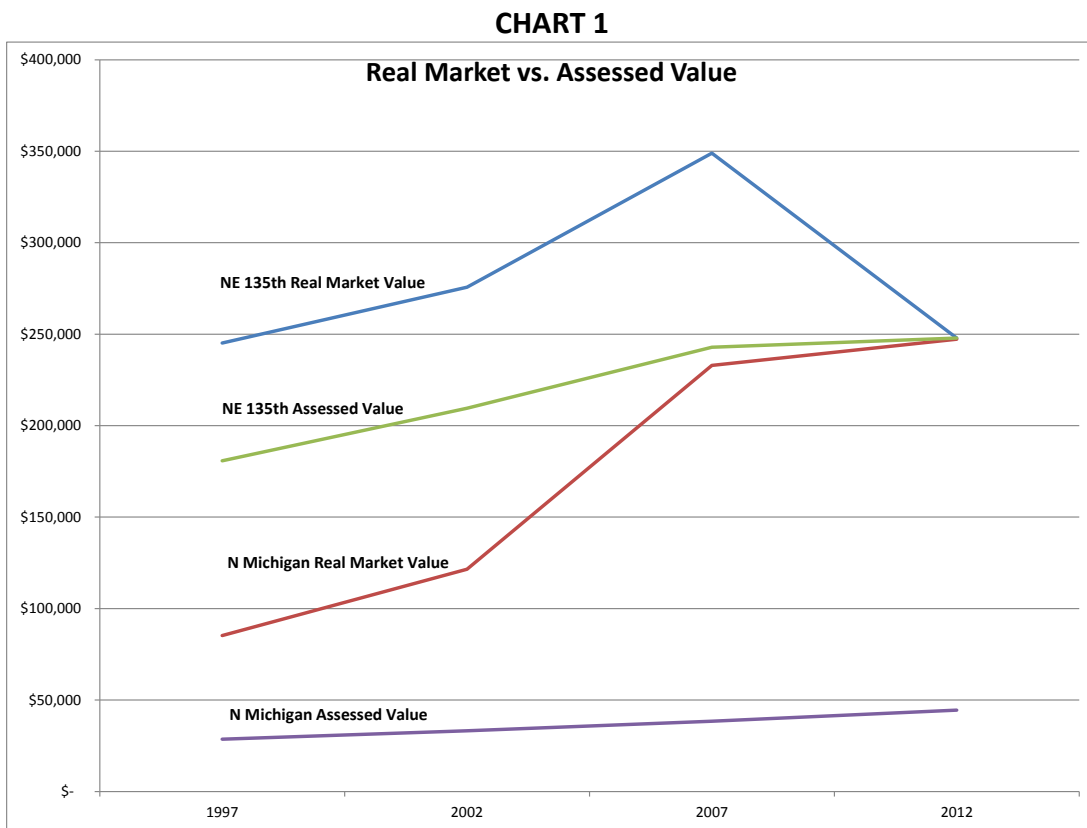
because of the 3% “cap” on increases in assessed value. Because East Portland property values have increased more slowly than other parts of the city, property owners here pay more in taxes than owners of similarly valued properties.

The two charts below illustrate this point:

**Chart 1** shows the Real Market Value (RMV) and Assessed Value of two houses. . In 1997, these two houses had very different property values. One is located in East Portland in the 3900 block of NE 135<sup>th</sup>; the other is located in North Portland in the 3900 block of N Michigan. In 1997, the N Michigan house (real market value of about \$80,000) was worth much less than the property on NE 135<sup>th</sup> (real market value of \$247,000). Between 1997 and 2012, the Assessed Value was limited to an increase of 3% a year.

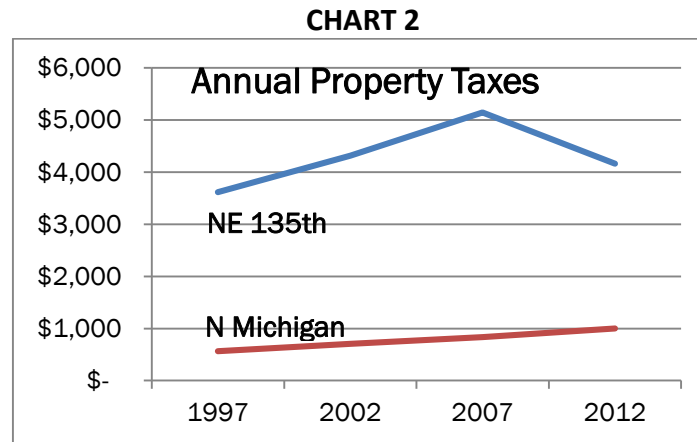
Chart 2 shows that the end result for the amount of Property Tax paid by the owners of each house is much different. The real market value has increased much more for the N. Michigan house---but hardly at all for the house on NE 135<sup>th</sup>. In 2012, the two houses have nearly identical Real Market Value: both are at about \$249,000. However, the East Portland Property Tax is considerably more.

*The inner Portland home is worth much more than it was in 1997, but its Assessed Value has remained low; the East Portland home’s value is about the same, yet its tax value has risen.*



In 1997, the owner of the N. Michigan House paid about \$800 for the year in taxes---and because the assessed value of the house could not increase more than 3% per year, the taxes stayed low. However, in 1997, the owner of the house on NE 135<sup>th</sup> paid \$3,700 in annual Property Taxes and that amount increased over the years. By 2012, the owner of NE 135<sup>th</sup> house paid \$4,164 in annual property taxes, while the owner of N Michigan house paid only \$1,000 in annual property taxes.

*These two homes are worth about the same, yet one owner pays \$3,000 more a year in taxes.*



**The secondary reasons for the tax inequity are:**

**(A) East Portland has a greater proportion of buildings that were constructed after the tax limitation initiatives**

Almost half of the new residential units built in the city from 1996-2006 were in East Portland. This rate has slowed since the recession, but the average age of building stock is lower than anywhere else in Portland. Buildings constructed since the mid-1990s go on the tax rolls at full value. Thus, East Portland housing stock is assessed at the value set by a mid-1990s value, while inner Portland housing stock is assessed at an earlier and less expensive value.

**(B) High property taxes are depressing East Portland property values when compared to some other areas of Portland**

Buyers know that they are getting a great deal on taxes when they buy property in neighborhoods such as Alberta or Hawthorne that have seen rapid increases in value, yet property tax assessments are essentially frozen at market values from 20 years ago. This makes investment in East Portland less competitive.

**(C) East Portland has less and comparatively lower valued commercial property than most of Portland**

Commercial property has increased in value more than residential property. East Portland has comparatively less commercial property---and thus there is less increase in the overall value of

property in East Portland. As we've learned, Assessed Values for property tax purposes were reduced to mid-1990s values and limited to increases of 3% per year. With less high valued commercial property in East Portland and high valued commercial property that is paying at under assessed value, again East Portland is paying more than its share of the tax burden.

### **OPTIONS**

1. Reset of the Assessed Property Value at Sale;
2. Repeal Measures 47/50 and property taxes would again be based on Real Market Value;
3. Base local option taxes on Real Market Value, not Assessed Value. This would bring taxes up in other areas of the city.

### **CONCLUSION** (from the EPAP Housing Subcommittee)

#### **Reset of the Assessed Property Value at Sale is the best option for East Portland!**

We recommend the fix offered by the League of Oregon Cities: "reset at sale." This would set the Assessed Value at the sale price when properties are sold. Over time this would reduce the gap between Real Market Value and Assessed Value.

This option reduces the inequity suffered by East Portland property owners and over time would again make taxes paid proportional to the Real Market Value of property. It would not tax seniors and others living on fixed incomes out of their homes. Property buyers would be able to calculate their taxes and account for them as part of their purchase.

**The EPAP Housing Subcommittee recommends adoption of this paper by the full East Portland Action Plan (EPAP) membership at its meeting on 2/26/14.**