

CHAPTER 2: PROPERTY TAX

The property tax is the second largest tax in Oregon, providing most of the revenue for non-school local governments and roughly one quarter of the revenue for school districts. Total property taxes imposed, including taxes for urban renewal agencies, totaled \$4.8 billion in the 1995–97 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 three percent per year.

For a more detailed description of Oregon's property tax system under Measure 50, see the Oregon Department of Revenue publication [Oregon Property Tax Statistics, Fiscal Year 1997–98](#).

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 which results in a lower taxable value than would be the case if the usual assessment practice were used. In effect, this results in a partial exemption from property tax.

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 permanent rates represent nearly 80 percent of all property taxes, under Measure 50 the revenue losses due to property tax exemptions are much larger than the shifts.

For a number of the property tax expenditures, revenue impacts are higher now than they were in the tax expenditure report of two years ago. This is due primarily to the changes caused by Measure 50. This increase occurred because most tax rates can no longer rise when value is exempted from taxation, so most of the revenue impact that was a tax shift under the pre-Measure 50 system became a revenue loss under Measure 50. For provisions that exempt very large amounts of value from taxation, the loss under Measure 50 often is larger than the shift that occurred under the old system. Under the old system, the revenue impact for the shift component was moderated by the adjustment of rates to large value changes. Under Measure 50 the perma-

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ment rates cannot adjust, so not only does the old shift impact now become revenue loss, but the total revenue impact is larger.

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 “shift” 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 the total of the loss and shift.

2.001 ACADEMIES, DAY CARE, AND STUDENT HOUSING

Oregon Statute: 307.145

Sunset Date: None

Year Enacted: 1957

1997–98 Assessed Value of Property Exempted: \$106.0 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$2,800,000	\$500,000	\$3,300,000
1999–01 Revenue Impact:	\$3,000,000	\$600,000	\$3,600,000

DESCRIPTION: Property owned by a charitable or religious organization 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 (2.094 Charitable, Literary, and Scientific). 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 broaden the application of Charitable, Literary, and Scientific (2.094) to certain school and child care property.

WHO BENEFITS: Approximately 250 schools and day care properties in 11 counties were exempt in 1996. Nearly 56 percent of the accounts and 72 percent of the value of exempted property are in Clackamas, Multnomah and Washington counties.

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 Prekindergarten 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, 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 FRATERNITIES, SORORITIES, AND COOPERATIVES

Oregon Statute: 307.460

Sunset Date: None

Year Enacted: 1973

1997–98 Assessed Value of Property Exempted: \$28.4 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$390,000	\$50,000	\$440,000
1999–01 Revenue Impact:	\$420,000	\$50,000	\$470,000

DESCRIPTION: Property owned by a qualified nonprofit corporation, fraternity, sorority, or cooperative housing organization, which is rented exclusively to students who attend an accredited education institution is exempt from property taxes levied by schools, educational service districts, and community colleges. To qualify, the organization must be incorporated as nonprofit and student occupancy must be non-discriminatory. If an exempt property loses its qualification, additional taxes equal to the tax benefit of the exemption for all exempt years plus interest and a 20 percent penalty are due. This statute covers fraternities, sororities, and cooperatives owned by private parties. The exemption for leased student housing covers student housing 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 (2.004 Leased Student Housing Publicly Owned).

WHO BENEFITS: About 135 accounts are exempt and are located primarily in Benton, Lane 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 System of Higher Education.*]

2.003 STUDENT HOUSING FURNISHINGS

Oregon Statute: 307.195

Sunset Date: None

Year Enacted: 1957

1997–98 Assessed Value of Property Exempted: \$2.0 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$50,000	\$10,000	\$60,000
1999–01 Revenue Impact:	\$50,000	\$10,000	\$60,000

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.

PURPOSE: To help keep college housing costs to a minimum by giving personal property of fraternities, sororities, and co-ops the same exempt status as personal property used in public school dorms.

WHO BENEFITS: About 135 accounts are exempt and are located primarily in Benton, Lane and Yamhill counties.

EVALUATION: This tax expenditure achieves its purpose and is an extension of Fraternities, Sororities, and Cooperatives (2.002). 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 System of Higher Education.*]

2.004 LEASED STUDENT HOUSING PUBLICLY OWNED

Oregon Statute: 307.110(3)(a)

Sunset Date: None

Year Enacted: 1947

1997–98 Assessed Value of Property Exempted: \$286.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$7,400,000	\$1,400,000	\$8,800,000
1999–01 Revenue Impact:	\$7,800,000	\$1,500,000	\$9,300,000

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. 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 state system of higher education and leased by publicly owned schools to students.

PURPOSE: To help keep college housing costs to a minimum by treating state higher education dormitories the same as other public property (2.087 State and Local Property).

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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 System of Higher Education.*]

2.005 HIGHER EDUCATION PARKING SPACE

Oregon Statute: 307.095 (3)

Sunset Date: 7-1-02

Year Enacted: 1989

1997–98 Assessed Value of Property Exempted: \$89.3 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$2,300,000	\$400,000	\$2,700,000
1999–01 Revenue Impact:	\$2,400,000	\$500,000	\$2,900,000

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 State System of Higher Education and rented to employees and students 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 have rented student and employee parking. Some are paved lots and others are parking structures built with bond revenue. Most of the value is in Portland at Oregon Health Sciences University and Portland State.

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 System of Higher Education.*]

2.006 PRIVATE LIBRARIES FOR PUBLIC USE

Oregon Statute: 307.160

Sunset Date: None

Year Enacted: 1854

1997–98 Assessed Value of Property Exempted: \$600,000

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	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 as public property (2.087 State and Local Property). The owner must file an application with the county assessor to claim the exemption (ORS 307.162).

PURPOSE: To broaden the application of the literary and scientific institution exemption to public or private libraries, treating them as places of learning similar to schools.

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

EVALUATION: It is not clear, given the information available, whether this expenditure is accomplishing its purpose or not. The key policy issue is whether it serves the public interest to have these private libraries receive a tax exemption in return for services they provide to the public. The libraries that use this exemption range from a library in rural Lane County that provides services not available otherwise, to libraries in communities with tax funded county libraries. The Jefferson County Library is a private, non-profit corporation that contracts with Jefferson County to provide county-wide library service. Because of this contract, the arrangement is in keeping with the statutory definition of a public library (ORS 357.410(2)) and does not duplicate other services provided in the county. In both the Jefferson County and Lane County cases, an argument can be made that there is a clear public interest in granting the tax exemption.

With the other libraries, two issues arise. Some of the libraries may not be dependent on ORS 307.160 for an exemption as they may be able to qualify for other exemptions under ORS Chapter 307. Secondly, some of these libraries are located in areas already served by tax funded public libraries. It is harder to argue that granting tax exemptions to these libraries is in the public interest.

Given that eliminating the exemption could potentially disrupt the library service in rural Lane County, and the uncertainty around whether the other libraries are dependent on this exemption, the State Library Board recommends no changes be made to ORS 307.160. *[Evaluated by the State Library.]*

2.007 SENIOR SERVICES CENTERS

Oregon Statute: 307.147

Sunset Date: None

Year Enacted: 1993

1997–98 Assessed Value of Property Exempted: \$2.7 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$70,000	\$10,000	\$80,000
1999–01 Revenue Impact:	\$70,000	\$10,000	\$80,000

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. Property use or activities that do not qualify include fund raising, retail sales, or living quarters. The nonprofit organization must file an application with the county assessor to claim the exemption.

PURPOSE: To expand upon Charitable, Literary, and Scientific (2.094).

WHO BENEFITS: Eighteen properties in Coos, Curry, Douglas and Josephine 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 (2.094), 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 Senior and Disabled Services Division.*]

2.008 SENIOR DEFERRAL PROGRAM

Oregon Statute: 311.668

Sunset Date: None

Year Enacted: 1963

	Loss	Shift	Total
1997–99 Revenue Impact:	Not Applicable	Not Applicable	- \$8,700,000
1999–01 Revenue Impact:	Not Applicable	Not Applicable	- \$1,400,000

DESCRIPTION: Oregon homeowners age 62 or over may delay paying property taxes on their residences. Instead, the state pays the property taxes and charges the homeowners an annual interest rate of six percent. The state must be repaid, with interest, when the owner dies, sells the property, or moves. To qualify for the program, the taxpayer must have a total household income of \$24,500 or less for the preceding year, and to remain in the program the taxpayer must have federal adjusted gross income of \$29,000 or less in subsequent years.

The Department of Revenue maintains records on the amount of tax deferred in each year as well as the amount repaid, with interest, each year. The reported tax benefit is the difference between deferrals and repayments in a given year. In years when repayments are greater than deferrals, the tax benefit is reported as a negative number. The benefit of the program is an interest rate subsidy to the extent that market interest rates on loans exceed the six percent charged by the state. It is extremely difficult, however, to estimate the

value of an interest subsidy that extends over many years. The tax benefit is measured as the current-period difference between deferrals and repayments, which is a more useful measure from a budgeting perspective.

PURPOSE: To defer the property tax burden on low-income seniors in recognition that many may not have the resources to pay their taxes until they sell their homes.

WHO BENEFITS: There were 10,823 low-income senior homeowners who chose to defer their local property taxes for the 1997–98 fiscal year. These deferrals translated into \$13,067,836 in local property taxes that were paid by the state. The average amount of local property taxes paid was \$1,207. Currently, the total amount of deferred taxes owed to the state is \$100,653,399.

EVALUATION: This tax expenditure achieves its purpose. It provides a mechanism by which elderly people might have an option to assist themselves during retirement years if other mechanisms of retirement were not adequate. While most elderly people have a strong aversion to drawing down the equity in their homes to pay for retirement, it should be noted that current retirement index data forecasts that current retirement programs and saving patterns of persons aged 30 to 48 are not adequate to maintain these individuals at a living standard commensurate with their current living standards. Projections suggest that the rate of retirement savings must increase three-fold from present levels to accomplish this future parity. The inability to achieve this parity will cause greater numbers of people to look at government service programs to assist them. The present population of 30–48 is substantial and will have a dramatic impact when they reach the retirement age. Therefore, this program will have greater importance in the years to come. One concern centers on the state’s ability to sustain this program into the future as the eligible taxpayer base grows. [*Evaluated by the Senior and Disabled Services Division.*]

2.009 ENTERPRISE ZONE BUSINESSES

Oregon Statute: 285B.698

Sunset Date: 6-30-09

Year Enacted: 1985

1997–98 Assessed Value of Property Exempted: \$1.4 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$38,000,000	\$7,100,000	\$45,100,000
1999–01 Revenue Impact:	\$28,500,000	\$5,300,000	\$33,800,000

DESCRIPTION: Qualified property owned or leased by a qualified business firm in an enterprise zone is exempt from property tax for three years. The exemption period may be increased to four or five years by a city or county zone sponsor if specified employment, wage requirements or other sponsor conditions are met. The qualified property must be used to produce income and an application has to be for more than \$25,000 of investment.

Cities and counties apply for enterprise zones and the Director of the Economic Development Department approves designated zones. Zone designations cannot exceed 37 in number. There are urban and nonurban zones. An enterprise zone designation terminates after ten years. A firm may continue to qualify subsequent expansions up to ten years after the zone terminates if certain criteria are met. New zones shall be designated by the Director of the Economic Development Department as existing zones are terminated.

The following property of a qualified firm qualifies: a) a new building costing \$25,000 or more; b) an existing building addition or modification costing \$25,000 or more; c) real

or personal machinery and equipment moved into a zone from outside the county; and d) a building leased from a governmental body.

A business firm is qualified if the firm:

- Receives at least 75 percent of its annual gross receipts within the zone from activities which provide products or services (assembly, fabrication, storage, etc.) for other businesses;
- Owns or leases property within a zone that is part of the business operation;
- Increases employment by ten percent if an existing firm or hires one or more employees if a new firm;
- Does not substantially decrease employment outside the zone and does not decrease employment inside the zone in years two and three of the exemption period.

In certain zones, hotels, motels, and destination resorts qualify. Retail operations located at the same site and owned or operated by the same firms as the hotel, motel or resort also qualify as long as their primary function is to serve the hotel and motel guests.

Property is disqualified if it is moved outside the zone or the firm curtails operations or closes. When property is disqualified, all prior exempt taxes must be repaid.

PURPOSE: The purpose of enterprise zone exemptions is 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 285B.665).

WHO BENEFITS: There are 37 enterprise zones in 26 counties. In 1997–98, about 170 businesses in these zones benefited from the exemption. Ten businesses accounted for over 80 percent of the total tax benefit. The majority of the exempt value consisted of manufacturing facilities, ranging from electronics to wood products to food processing, as well as a number of other types. There were about 15 hotels or motel exempt, but they comprise a small proportion of the total value. Beneficiaries include the companies’ owners, employees, customers, suppliers and the communities in which they reside.

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 roughly 1,450 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 a job, or indirectly by paying needed local taxes for local government services. Other benefits to the economy include non-property taxes paid, lower unemployment, higher wages, as well as indirect stimulation such as construction work and orders for suppliers. Although a few zones have been unable to attract new investment, most have been effective.

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 the program faced cumbersome statutory provisions but those have been revised. 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. *[Evaluated by the Economic Development Department.]*

2.010 INVESTMENT IN RURAL ENTERPRISE ZONE (PROPERTY TAX)

Oregon Statute: Note following 285B.689 (OR Laws 1997, Ch. 835, Sec. 38)

Sunset Date: 12-31-02

Year Enacted: 1997

1997–98 Assessed Value of Property Exempted: \$0

	Loss	Shift	Total
1997–99 Revenue Impact:	\$0	\$0	\$0
1999–01 Revenue Impact:			Not Available

DESCRIPTION: The value of all property and improvements of certain large investments in a non-urban enterprise zone is exempt from property tax for up to 15 years. The investment must be located in a county with chronic unemployment, the investment must exceed \$50 million, the firm must hire at least 100 full-time employees within five years, and the average wage must be at least 50 percent above the county average.

A business applies for certification with the city 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 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 sponsoring city or county that may include additional requirements, including contributions for local services or infrastructure; and
- The facility is located in a county with chronic unemployment, as defined in statute.

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 (1.122 Investment in Rural Enterprise Zone (Income Tax)), if approved by the governor.

The revenue estimate is very uncertain at this point. First, it is not clear whether any company will choose to use this expenditure in the near future. Second, the time period required to implement this type of large investment is long enough that any revenue impact would probably not apply until the 2001–03 biennium.

PURPOSE: To encourage investment in non-urban areas of chronic unemployment.

WHO BENEFITS: This provision is intended to benefit “non-urban” enterprise zones and the surrounding residents in counties with chronic unemployment. In addition to the residents receiving benefits, other beneficiaries include the participating companies, their suppliers, customers, and employees.

EVALUATION: At this time, no company has used this provision. However, at least two companies are working on business development plans that involve the use of this provision. It is possible, and perhaps likely that if Oregon did not have this provision, one or both of these projects would be relocated to another state or other less distressed location within Oregon that better matches the company’s siting preferences. Therefore, this provision appears to be having the intended effect on investment in Oregon.

Some issues to consider with this exemption include the possibility that it may encourage competition among states. It may also be perceived as creating an inequity in the tax system or of shifting the tax burden from one group of taxpayers to another. *[Evaluated by the Economic Development Department.]*

2.011 COMMERCIAL BUILDINGS UNDER CONSTRUCTION

Oregon Statute: 307.340

Sunset Date: None

Year Enacted: 1959

1997–98 Assessed Value of Property Exempted: \$900 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$21,100,000	\$3,900,000	\$25,000,000
1999–01 Revenue Impact:	\$15,300,000	\$2,800,000	\$18,100,000

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,
- is not and has not been used or occupied,
- is being built for the purpose of earning income,

- is not to be occupied for at least one year after beginning construction if a nonmanufacturing 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.

PURPOSE: To allow business facilities to be operating before property taxes are actually due.

WHO BENEFITS: About 20 properties in eight counties were exempt in 1997–98. The location and amount can fluctuate substantially from year to year as major construction projects take place. The 1997–98 exempt value was nearly double that in 1995–96. Over one-half of the value exempt in 1997–98 was 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 unused 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, however, seems to be greatly under-utilized, probably because it is not widely known and administrative technicalities have limited its accessibility. *[Evaluated by the Economic Development Department.]*

2.012 KEY INDUSTRY STRATEGIC INVESTMENT

Oregon Statute: 307.123

Sunset Date: None

Year Enacted: 1993

1997–98 Assessed Value of Property Exempted: \$590 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$18,400,000	\$3,400,000	\$21,800,000
1999–01 Revenue Impact:	\$14,400,000	\$2,700,000	\$17,100,000

DESCRIPTION: The assessed value above \$100 million of certain investment projects is exempt from property tax for up to 15 years. The Oregon Economic Development Commission determines whether a project is eligible for the tax exemption. The State Treasurer may authorize and issue revenue bonds to finance the project (ORS 285B.383).

A key industry is defined in statute as an industry that sells goods or services in markets with national or international competition and that makes a major contribution to the Oregon economy. Examples are forest products, agricultural products, high technology, primary and fabricated metals, fisheries, interstate and international tourism, film and video production, graphic communications, biotechnology, software, environmental services, plastics, and aerospace (ORS 285B.280(3)).

The key industry business must enter into a first-source hiring agreement with a publicly funded training provider. The business must pay an annual community services fee equal to the lesser of (a) 25 percent of the equivalent property tax on the exempt value or (b) \$2 million. The county and city (if located in a city) where the project is located share the annual fee by mutual agreement. The county and city must have an agreement with a business applicant about any special requirements before the county requests a project (ORS 285B.386).

PURPOSE: The purpose is to allow Oregon to compete with other states for major investment projects by establishing an upper limit on property taxes for an investment project. These projects tend to have a very high investment per employee (i.e. they are capital intensive) and property taxes may be significantly higher than the cost of government services associated with the business and its employees.

WHO BENEFITS: Three projects have been approved by Washington County and two projects by Multnomah County. One of the projects initially approved has since negotiated with the city and county to discontinue their agreement's obligations and benefits. Three projects were exempt under this program in 1996–97, while the fourth project came into this program in 1998–99. It is often the case that the investment still under construction may be exempt initially as commercial facilities under construction (2.011). All the firms participating in this program are high technology industry businesses. In 1996–97, the businesses qualifying for this exemption paid approximately \$1.3 million in annual community services fees.

EVALUATION: The program appears to achieve its goal of encouraging 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 there is evidence that both state and local officials have felt that such a program was necessary to increase the likelihood that Oregon locations would be chosen as the sites for capital-intensive investments in key industries. The fact that local officials have approved five applications under the program indicates that local officials believe these tax expenditures have a net positive value to their communities. If the investment would not have been made in Oregon without the program, there is also a likely increase in state corporation income tax.

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 simply benefit the 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. [*Evaluated by the Economic Development Department.*]

2.013 INVENTORY

Oregon Statute: 307.400(3)(f)

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: \$8.8 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$230,000,000	\$43,000,000	\$273,000,000
1999–01 Revenue Impact:	\$260,000,000	\$48,000,000	\$308,000,000

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, and finished goods, but not machinery and equipment used to produce these goods.

This definition was expanded in 1973 to include farm machinery and equipment (2.039 Farm Machinery and Equipment).

PURPOSE: The purpose is to eliminate the tax compliance burden of enumerating inventory, to provide tax relief to small merchants, 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 benefit from exempt inventory. Because the value of inventory varies by industry, some types of businesses benefit from this exemption relatively more than others. In addition, the value of the exemption in some industries is dependent on the specific assessment date in effect.

In a competitive market, businesses that receive the tax exemption will pass most or all of this tax savings on to their customers. There may also be some residual benefit from this tax savings passed on to the businesses' employees and suppliers.

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.

Virtually every state provides some form of property tax exemption for inventory. 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 on businesses, especially small businesses, and leaves business freer to plan its inventory based on sound business practices. [*Evaluated by the Economic Development Department.*]

2.014 PERSONAL PROPERTY LESS THAN \$10,000

Oregon Statute: 308.250(2)

Sunset Date: None

Year Enacted: 1979

1997–98 Assessed Value of Property Exempted: \$270 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$6,900,000	\$1,300,000	\$8,200,000
1999–01 Revenue Impact:	\$7,200,000	\$1,300,000	\$8,500,000

DESCRIPTION: Starting in the 1997–98 tax year, if a taxpayer has less than \$10,000 worth of business personal property in a county in a given year, the property tax assessment is canceled for that year (prior to 1997–98 the threshold was \$3,000). An initial return must be filed with the assessor who then cancels the tax. After an initial cancellation a taxpayer may file an annual statement declaring that the value continues to be less than \$10,000.

PURPOSE: To reduce the filing burden for many small businesses and avoid the administrative processing and collection costs for returns where this cost may be more than the tax owed.

WHO BENEFITS: This exemption benefits small businesses directly, and indirectly benefits the suppliers, customers, and employees of those businesses. About 65,000 accounts (about one third of all personal property accounts) were less than \$10,000 in 1997–98. The average tax reduction was approximately \$60 per account.

EVALUATION: This exemption 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 exemption, may help encourage small businesses to form and remain in business.

The exemption 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 Development Department.*]

2.015 CARGO CONTAINERS

Oregon Statute: 307.850

Sunset Date: 7-1-02

Year Enacted: 1979

1997–98 Assessed Value of Property Exempted: \$30.4 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$800,000	\$100,000	\$900,000
1999–01 Revenue Impact:	\$900,000	\$200,000	\$1,100,000

DESCRIPTION: Cargo containers primarily used for cargo transportation on ocean going 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. To claim the exemption, the owner or person in control of the containers must file an application with the local assessor. 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: To help Oregon ports remain competitive with Washington and California which exempt all cargo containers. The statute reinstated the status quo of not taxing cargo containers after an Attorney General Opinion determined that cargo containers were taxable personal property.

WHO BENEFITS: The equivalent of roughly 10,000 twenty-foot containers on average are estimated to be in the state. The tax benefit estimate reported above includes the value of all 10,000 of these containers. Almost all of these are used in foreign commerce and thus would be exempt even without this specific statute. Containers used in domestic trade would probably have their value apportioned between Oregon and other states.

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.
[Evaluated by the Economic Development Department.]

2.016 DOCKS AND AIRPORTS LEASED FROM PORT DISTRICT

Oregon Statute: 307.120

Sunset Date: None

Year Enacted: 1947

1997–98 Assessed Value of Property Exempted: \$140.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$3,700,000	\$700,000	\$4,400,000
1999–01 Revenue Impact:	\$4,000,000	\$800,000	\$4,800,000

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 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 so 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 serving less than 300,000 inhabitants that is leased and used by private individuals remains exempt so long as rent proceeds are used for airport maintenance.

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: Exempt value of leased port property that is subject to an in-lieu payment is \$80 million. This property is in nine counties, but Multnomah County accounts for about 90 percent of the exempt value. Assessors report another \$60 million of exempt value that is either dock property not subject to in-lieu payments or airport property. Beneficiaries include those who use docks and airports directly and those affected by the increased level of business activity in port districts that, without this exemption, might not have occurred.

IN LIEU: The in-lieu-of-tax payment is one quarter of one percent of the assessed value of the property and is distributed to the school districts. About \$224,000 of in lieu tax was paid to school districts in 1995–96, primarily in Multnomah County.

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 Development Department.*]

2.017 LEASED PUBLICLY-OWNED SHIPYARD PROPERTY

Oregon Statute: 307.110(3)(h)

Sunset Date: 7-1-10

Year Enacted: 1995

1997–98 Assessed Value of Property Exempted: \$65.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,900,000	\$400,000	\$2,300,000
1999–01 Revenue Impact:	\$2,100,000	\$400,000	\$2,500,000

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 ocean-going 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 one percent.

The exemption first applied to tax year 1995–96. The owner of the property must contact the county assessor to claim the exemption.

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: Lessee of Port of Portland shipyard. The revenue impact reported here is based on the value of the entire shipyard (less any subleased property) since the entire shipyard is exempt under this statute. However, the value of the actual property occupied by the sole contractor has historically been only about ten percent of the value of the entire shipyard. In the past, much of the shipyard has not been leased.

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 Development Department.*]

2.018 SHIP REPAIR FACILITY MATERIALS

Oregon Statute: 308.256(7)

Sunset Date: None

Year Enacted: 1957

1997–98 Assessed Value of Property Exempted: \$0

	Loss	Shift	Total
1997–99 Revenue Impact:	\$0	\$0	\$0
1999–01 Revenue Impact:	\$0	\$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 2.068 Watercraft Locally Assessed.

PURPOSE: To help Oregon shipyards compete with shipyards in other states.

WHO BENEFITS: This exemption predates the full exemption of inventory (2.013 Inventory). Most, if not all, of the material exempted by this statute would probably be considered inventory. Assessors report no exempt value.

EVALUATION: Not Evaluated

2.019 AIRCRAFT BEING REPAIRED

Oregon Statute: 308.559

Sunset Date: None

Year Enacted: 1995

1997–98 Assessed Value of Property Exempted: \$1.4 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$40,000	\$10,000	\$50,000
1999–01 Revenue Impact:	\$40,000	\$10,000	\$50,000

DESCRIPTION: Aircraft of an airline transportation company undergoing major work at an Oregon facility are exempt from property tax. The Oregon value of an airline company is normally determined by first valuing the entire company. The Oregon portion of that value is then determined based on an allocation formula which 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 in Oregon in the allocation formula, and thus reduces the Oregon property value for an airline doing aircraft repair in Oregon.

Major work includes scheduled maintenance, repairs, renovation and conversion in which the total labor expended for the work exceeds 10 hours. The exemption first applied in tax year 1996–97.

PURPOSE: To promote the aircraft repair industry, promote the aircraft maintenance center in Portland (Pamcorp), and to provide an aircraft repair exemption comparable to the exemption for rail cars under repair (2.020).

WHO BENEFITS: Airline companies who do aircraft repair in Oregon. There is currently only one facility operating. The Portland aircraft maintenance facility is not operating, and Pamcorp is no longer in existence.

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 is being used by a much smaller regional aircraft maintenance facility and may in the future more fully achieve its original desired result. *[Evaluated by the Economic Development Department.]*

2.020 RAILROAD CARS BEING REPAIRED

Oregon Statute: 308.665

Sunset Date: None

Year Enacted: 1973

1997–98 Assessed Value of Property Exempted: \$200,000

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

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 ten 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. Private car companies have “major work” done at two companies in Oregon.

PURPOSE: To promote the railroad car repair industry, and to have a railroad repair exemption comparable to the exemption for ship repair (2.068 Watercraft Locally Assessed).

WHO BENEFITS: Private railroad car companies.

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. Makes Oregon marginally more competitive with such areas. The expenditure probably slightly increases the number of rail cars repaired in Oregon. *[Evaluated by the Economic Development Department.]*

2.021 RECREATION FACILITY ON FEDERAL LAND

Oregon Statute: 307.182

Sunset Date: 7-1-02

Year Enacted: 1975

1997–98 Assessed Value of Property Exempted: \$50.6 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,000,000	\$200,000	\$1,200,000
1999–01 Revenue Impact:	\$1,100,000	\$200,000	\$1,300,000

DESCRIPTION: 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 person 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: The purpose is to provide tax relief to compensate for the cost of permit fees, the financial problems of the industry at the time the exemption was passed, and the difficulty of valuing the property with its restrictions. The exemption may also avoid “double taxation” since 25 percent of the fee income to the Forest Service is shared with counties.

WHO BENEFITS: The Forest Service has almost 16,000 acres under permit for 41 ski and lake recreational areas in 16 counties. Fees paid to the Forest Service for these permits totaled a little over \$1 million in 1994, mostly for ski areas. One-quarter of this amount, or about \$266,000 was shared with the counties.

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 Development Department.*]

2.022 DEFENSE CONTRACTOR WITH FEDERAL PROPERTY

Oregon Statute: 307.065

Sunset Date: None

Year Enacted: 1965

1997–98 Assessed Value of Property Exempted: \$0

	Loss	Shift	Total
1997–99 Revenue Impact:	\$0	\$0	\$0
1999–01 Revenue Impact:	\$0	\$0	\$0

DESCRIPTION: Property that is owned by the federal government and 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: The purpose of the exemption is unknown. It may be to clarify that the property is not taxable because of its federal ownership status, and to help promote the defense industry in Oregon.

WHO BENEFITS: No property could be identified as currently exempt.

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 Development Department.]*

2.023 INDUSTRY APPRENTICESHIP/TRAINING TRUST

Oregon Statute: 307.580

Sunset Date: None

Year Enacted: 1983

1997–98 Assessed Value of Property Exempted: \$3.1 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$80,000	\$20,000	\$100,000
1999–01 Revenue Impact:	\$90,000	\$20,000	\$110,000

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

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.)

WHO BENEFITS: Training trusts in five counties.

EVALUATION: There is insufficient information at this time to determine if this tax expenditure achieves its purpose although it appears to allow for a greater use of funds in developing the workforce to meet the challenges of the future. *[Evaluated by the Employment Department.]*

2.024 FAIRGROUND LEASED STORAGE SPACE

Oregon Statute: 307.110 (3)(d)

Sunset Date: None

Year Enacted: 1987

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	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: County fairs benefit from this exemption. The State Fair does not have any leased property that is exempt under this statute.

EVALUATION: Not Evaluated

2.025 NEW HOUSES IN A DISTRESSED AREA

Oregon Statute: 458.020

Sunset Date: 7-1-03

Year Enacted: 1989

1997–98 Assessed Value of Property Exempted: \$37.6 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,200,000	\$200,000	\$1,400,000
1999–01 Revenue Impact:	\$1,400,000	\$300,000	\$1,700,000

DESCRIPTION: A new single family housing unit built in a distressed area can be exempt from property tax for ten years. Only the value of the dwelling is exempt while 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 city can designate up to 20 percent of its land area as distressed.

Approval by the city will exempt only the city taxes. To exempt all property taxes, districts representing 51 percent of the taxes on the property must also agree to the exemption.

To qualify for the exemption, the single family dwelling must: 1) be constructed after January 1, 1990 and before July 1, 2003; 2) be used as a dwelling for one person or family; and 3) 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: 1) adopt a resolution or ordinance; 2) designate a distressed area; 3) adopt standards and guidelines; 4) approve or disapprove applications; and 5) 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 times the number of years exempt (10 maximum) is due.

- PURPOSE:** To “stimulate the construction of new single family residences 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 458.010).
- WHO BENEFITS:** Since the beginning of the program in 1990, 769 qualifying houses have been built in Portland. The number of properties doubled in the three years between 1995–96 and 1998–99. The average exempt property value per house is \$58,000, for a tax benefit per house of about \$1,000 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 the housing product 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 which 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.*]

2.026 REHABILITATED HOUSING

Oregon Statute: 308.459

Sunset Date: 7-1-08

Year Enacted: 1975

1997–98 Assessed Value of Property Exempted: \$17.6 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$500,000	\$100,000	\$600,000
1999–01 Revenue Impact:	\$500,000	\$100,000	\$600,000

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 ten years. To be eligible for the partial exemption, the property (land and improvements) must:

- Be at least 25 years old in 1986 and have undergone rehabilitation that cost at least five percent of the assessed value of the property before rehabilitation, or have undergone rehabilitation between 1989 and 1998 that cost at least 50 percent of the assessed value of the property before rehabilitation;
- be in substantial compliance with 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.

Property is frozen at its value before rehabilitation for ten years. However, if the property is participating in a low income rental assistance contract with a government agency the value freeze may continue for the duration of the contract. Qualified property is exempt only from city or county taxes. 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.

If use of the property changes, an additional tax equal to the sum of the tax benefits in the years exempt, up to a maximum of ten years, is due.

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: Portland had 192 rehabilitation properties in 1998–99, down slightly from the 222 properties in 1995–96. Multi-family housing accounted for over 80 percent of the total exempt value. On average almost sixty percent of the value of this housing was exempt.

EVALUATION: This expenditure achieves its purpose. This is a relatively older tax exemption program, and 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 (2.025 New Houses in Distressed Area).

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 assess 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 ten 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.*]

2.027 MULTI-FAMILY RENTAL HOUSING IN CITY CORE

Oregon Statute: 307.630

Sunset Date: 7-1-06

Year Enacted: 1975

1997–98 Assessed Value of Property Exempted: \$62.7 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,800,000	\$300,000	\$2,100,000
1999–01 Revenue Impact:	\$2,000,000	\$400,000	\$2,400,000

DESCRIPTION: A city may exempt from property tax the value of multiple family rental housing (excluding land) in its downtown area for up to ten years or, if rent is subsidized by the state or federal government, for a longer period. 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 core area;
- adopt standards for eligible developments including existing use of property, design, rents, and long-run public benefits;

- provide and accept applications;
- hold public hearings to determine whether proposed projects could be built without property tax benefits; and
- approve or disapprove applications, giving reasons for its actions.

Approved property is exempt from city property taxes. 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. The exemption may be granted for up to ten years. However, land cannot be exempt and for multi-unit conversions only the added conversion value is exempt. Construction is to be completed by July 1, 2006, 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.

Additional taxes for up to ten years are due if the use of the property is changed to condominiums or the owner has benefited from exemption when the property should not have been exempt.

The 1995 Legislature made several changes to this program, which became effective July 1, 1997. In addition to core areas, cities may designate light rail station areas or transit oriented areas. Counties may designate light rail station areas or transit oriented areas but not core areas. Portland chose to adopt this provision as a separate program titled Property Tax Exemption for New Transit Supportive Residential or Mixed Use Development.

- 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:** The cities of Portland, Salem and Eugene have a core area multi-family rental housing program. About ten properties are exempt in Portland, one in Salem and seven in Eugene. The total number of housing units built in Portland since the beginning of this program is 1,415. No qualifying transit supported developments were completed during 1997.
- EVALUATION:** This expenditure achieves its purpose. This is a relatively older tax exemption program, and 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 and 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 3 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 7 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 analyzes 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 ten 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.*]

2.028 NEW HOUSING FOR LOW INCOME RENTAL

Oregon Statutes: 307.517 and 307.518
 Sunset Date: 1-1-00
 Year Enacted: 1989

1997–98 Assessed Value of Property Exempted: \$12.9 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$380,000	\$70,000	\$450,000
1999–01 Revenue Impact:	\$420,000	\$80,000	\$500,000 *

* Revenue impact takes into account the sunset.

DESCRIPTION: Newly constructed rental housing units occupied by low income persons is exempt from property tax (both land and improvements) 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;
- approved by the city or county upon application;
- rented only to persons with income less than 60 percent of median income;
- 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(c3) 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.

The property owner or lessee must file an application with the appropriate governing body to claim the exemption. Disqualification occurs if the property is not used as required. If disqualified, additional taxes equal to the sum of the tax benefits for the years exempt (up to ten years) is due.

The revenue impact for 199–01 takes into account the sunset scheduled for 1-1-00, although the 199–01 revenue impact would still be \$500,000 if the sunset were extended.

PURPOSE: The exemption is to encourage for-profit businesses to develop low income housing by providing an exemption similar to what is available to nonprofits in cities adopting an exemption program under ORS 307.541. The exemption is to help meet the need for low income housing especially after a decline in federal funding.

WHO BENEFITS: About 30 properties in Baker City, Bend, Corvallis, Eugene, North Plains and Roseburg are exempt under this provision. About half the exempt value is in Eugene. There may be a few properties in other cities.

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.

The impact of Ballot Measure 50 on this exemption is unclear as of yet. Measure 50 may discourage local governments from using this exemption in the future. Under Measure 50, property tax exemptions cause 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.

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.]*

2.029 HOUSING AUTHORITY RENTAL UNITS

Oregon Statute: 456.225
 Sunset Date: None
 Year Enacted: 1991

1997–98 Assessed Value of Property Exempted: \$362 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$10,700,000	\$2,000,000	\$12,700,000
1999–01 Revenue Impact:	\$11,800,000	\$2,200,000	\$14,000,000

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.

The 1997 Legislature expanded the definition of housing project to include certain leased commercial facilities. This allows housing authorities to own commercial facilities which can then be leased to private operators.

The housing authority must file an application with the county assessor to claim the exemption on property that is leased.

PURPOSE: The exemption recognizes housing authority property to be “public property used for essential public and governmental purposes” (ORS 456.225) 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 1997, Oregon’s 22 housing authorities rented about 12,300 units of housing to approximately 26,500 low or very low income people, including an elderly population, a disabled population, single parents and their children, children being the largest single population element among those served. HUD definition of very low income is those who earn 50% or less of median income. Low income is defined as those who earn 80% 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. The exemption itself has been around for at least ten years and has been amended at the instigation of the housing authorities. It is believed, however, that the 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.]*

2.030 NONPROFIT LOW INCOME RENTAL HOUSING

Oregon Statute: 307.541

Sunset Date: 7-1-04

Year Enacted: 1985

1997–98 Assessed Value of Property Exempted: \$68.7 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$2,300,000	\$400,000	\$2,700,000
1999–01 Revenue Impact:	\$2,900,000	\$500,000	\$3,400,000

DESCRIPTION: A city or county may exempt from property tax (both land and improvements) low income rental housing owned or being purchased by a nonprofit corporation. Qualifying 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 rehabilitated structure.

Each year the nonprofit corporation must file an application with the appropriate governing body to claim the exemption. No specific limitation exists as to the number of years a given property may receive the exemption, except that the program is scheduled to sunset in 2004.

PURPOSE: To encourage the provision of affordable low income rental housing. The intent is for nonprofit organizations to help fill the need for low income housing especially after federal housing subsidy cutbacks.

WHO BENEFITS: About 15 nonprofit organizations in the Portland area had 430 exempt properties in 1998–99. A few properties in other cities are also exempt.

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 so 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.*]

2.031 NONPROFIT HOUSING FOR THE ELDERLY

Oregon Statute: 308.490

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:			Not Available
1999–01 Revenue Impact:			Not Available

DESCRIPTION: The assessed value of a home for the elderly operated by a nonprofit corporation may be reduced by using only certain appraisal methods for determining value. (These homes qualify under ORS 307.375; see 2.036 War Veterans in Nonprofit Elderly Housing.) For assessment purposes nonprofit homes for the elderly shall be valued by considering only the income and market data approaches. The cost approach to value shall not be considered. Reliance on the income approach generally results in lower assessed values, and thus lower property tax.

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: The purpose is 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: About 15 homes are specially assessed.

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 assuring that this form of housing is available to them, presumable at a reduced rate from market rents commensurate with the tax savings. No verification mechanism is in place to assure 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.*]

2.032 NONPROFIT ELDERLY HOUSING STATE FUNDED

Oregon Statute: 307.242

Sunset Date: None

Year Enacted: 1977

1997–98 Assessed Value of Property Exempted: \$44.7 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	Not Applicable	Not Applicable	\$1,500,000
1999–01 Revenue Impact:	Not Applicable	Not Applicable	\$1,800,000

DESCRIPTION: Homes for the elderly built or acquired after January 1, 1977, by private nonprofit corporations (ORS 307.375 qualifications) that receive subsidies under certain federal and state housing programs are exempt from property taxation. 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 any 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.

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: The statutory policy is to "assist private nonprofit corporations to provide permanent housing, recreational and social facilities, and care to elderly persons." (ORS 307.241). The exemption reduced the cost of new elderly housing to qualify for federal Housing and Urban Development National Housing Act funds. At the time, providing the nonprofit corporation a tax exemption accomplished this at about the same cost of providing Homeowners and Renters Refund Program (HARRP) tax relief to eligible occupants. While the HARRP program was phased out in 1991, the state funded tax relief for these elderly housing projects still remains.

WHO BENEFITS: The state paid 1997–98 property taxes of \$747,000 for 32 homes with about 1,540 units. Homes are in 16 counties with 10 of the 32 in Multnomah county. Between 1995–96 and 1997–98, four additional homes were added, and two more will be added for 1998–99.

Funds are appropriated as part of the Elderly Rental Relief program. Since the state pays the property taxes, there is no revenue loss to local taxing districts. There is also no revenue shift among property taxpayers.

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 ten 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 assure this result.

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

2.033 FARM LABOR HOUSING AND DAYCARE CENTERS

Oregon Statute: 307.485

Sunset Date: None

Year Enacted: 1973

1997–98 Assessed Value of Property Exempted: \$12.3 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$320,000	\$60,000	\$380,000
1999–01 Revenue Impact:	\$340,000	\$60,000	\$400,000

DESCRIPTION: Eligible farm labor camps and associated day care centers are exempt from property tax. An eligible farm labor camp is a place where housing (which may be apartments), sleeping places or camping grounds are owned and operated by a nonprofit corporation in compliance with applicable health codes. 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.

Owners of exempt farm labor housing must make in-lieu-of tax payments to the county treasurer equal to ten 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.

PURPOSE: To encourage low cost housing for farm workers by nonprofit corporations. Charging rental fees would otherwise make the housing taxable even though owned by a nonprofit.

WHO BENEFITS: Direct recipients are the nonprofit owners and operators of farm labor housing and associated day care centers. The farm workers and their families who live in the housing are the indirect beneficiaries of the credit. In 1997–98 there were about 50 farm labor housing properties exempt in eight counties with about 80 percent of the value in Hood River, Malheur, Umatilla and Washington counties. Eleven nonprofit corporations operate the housing.

IN LIEU: Nonprofit corporations operating farm labor housing do not usually have a net income after depreciation is taken into account, and hence 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 daycare 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.*]

2.034 SUMMER HOMES ON FEDERAL LAND

Oregon Statutes: 307.183 and 307.184
 Sunset Date: 7-1-02
 Year Enacted: 1975

1997–98 Assessed Value of Property Exempted: \$37.7 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,000,000	\$200,000	\$1,200,000
1999–01 Revenue Impact:	\$1,000,000	\$200,000	\$1,200,000

DESCRIPTION: 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 provide tax relief to compensate for the cost of permit fees, and to avoid the difficulty of valuing the property with its restrictions. The exemption reinstates the status quo of no land lease taxation after a court decision in 1971 found such land taxable. The exemption may also avoid “double taxation” since 25 percent of the fee income to the Forest Service is shared with counties.

Property Tax

WHO BENEFITS: In 1994 the Forest Service had 1,639 homesite permits totaling 616 acres in 17 counties. Clackamas County was the leading location with 558 homesites totaling 140 acres. Fees paid to the Forest Service for these permits totaled about \$1,270,000 in 1994, or about \$776 per permit. One quarter of this amount, or about \$318,000 was shared with the counties.

EVALUATION: Not Evaluated

2.035 WAR VETERANS AND THEIR SPOUSES

Oregon Statute: 307.250

Sunset Date: None

Year Enacted: 1921

1997–98 Assessed Value of Property Exempted: \$302.2 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$7,800,000	\$1,500,000	\$9,300,000
1999–01 Revenue Impact:	\$8,500,000	\$1,600,000	\$10,100,000

DESCRIPTION: Eligible war veterans or their surviving spouses qualify for a \$8,250 property tax exemption on their homestead or personal property. Those eligible include:

- any war veteran certified to be at least 40 percent disabled by the U.S. Veterans Administration;
- any war veteran who is certified to be at least 40 percent disabled by a licensed physician and whose total gross income is less than (a) \$8,037 if no spouse or dependent child, (b) \$10,527 if spouse or dependent child and (c) \$10,527 plus \$1,301 for the third and each additional dependent family member; and
- any surviving spouse of a war veteran (whether or not the veteran was disabled), as long as the spouse remains unmarried.

The exemption increases to \$11,000 for veterans and their surviving spouses if the war veteran had service-connected disabilities of 40 percent or more as certified by the U.S. Veterans Administration. No gross income limit applies in the case of service-connected disability.

A war veteran is defined in ORS 174.105 as anyone who served in the Armed Forces of the United States at least 90 days during World War I, World War II, or the Korean War, or served at least 210 days anytime after 1955.

The exemption amounts listed above became effective in 1997–98, after being increased by the 1995 Legislature. Starting in 1998–99, the exemption amount for service-connected disabilities increases by 3 percent per year. To claim these exemptions, an application must be filed each year with the county assessor.

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 1997–98 about 33,900 veterans or their spouses received the exemption. The average exemption was about \$8,900 and the average tax reduction was about \$135.

The revenue impacts reported here include those real property exemptions for veterans who live in qualified nonprofit homes for the elderly (2.036 War Veterans in Nonprofit Elderly Housing).

EVALUATION: This tax expenditure has achieved 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.*]

2.036 WAR VETERANS IN NONPROFIT ELDERLY HOUSING

Oregon Statute: 307.370

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: \$4.1 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$120,000	\$20,000	\$140,000
1999–01 Revenue Impact:	\$130,000	\$30,000	\$160,000

DESCRIPTION: Veterans or their widows who are residents of nonprofit homes for the elderly do not qualify for the veteran’s property tax exemption (2.035) because they do not own their living units. However, 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. To qualify the home must:

- be nonprofit;
- receive at least 95 percent of their 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 2.031 Nonprofit Housing for the Elderly. 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 War Veterans and their Spouses (2.035).

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: About 15 homes have personal property exempt.

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 War Veterans and their Spouses (2.035). This benefit may allow disabled veterans and surviving spouses to remain independent and reduces 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.*]

2.037 FARM LAND

Oregon Statute: 308.370
 Sunset Date: None
 Year Enacted: 1967

1997–98 Assessed Value of Property Exempted: \$4.4 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$88,400,000	\$16,200,000	\$104,600,000
1999–01 Revenue Impact:	\$93,800,000	\$17,100,000	\$110,900,000

DESCRIPTION: Under local property tax law, 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 308.345 to 308.407). Legitimate 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. See ORS 215.203 for the definition of farm use.

Farm use land is specially assessed at its “value for farm use” and not its value in other use. Farm use value is normally determined by an income approach. Under this approach income generated (before property taxes) from comparable properties is capitalized into a present value for farm use. The capitalization rate is the average interest rate charged over the last five years by the Farm Credit Service (formally Federal Land Bank) on loans for Oregon farm properties. The Department of Revenue calculates the rate each year.

Eligible farm land is in one of two categories:

- Zoned farm land—inside an exclusive farm use (EFU) zone;
- Unzoned farm land—outside an exclusive farm use zone (non-EFU).

The farm use value of zoned and unzoned farm land is determined the same way. However, the eligibility and disqualification procedures are different.

Zoned Farm Land

Special assessment of zoned farm land is automatic if the land is in farm use. No application is needed. Zoned land becomes disqualified if it is not being used as a farm or the land is rezoned to a non-farm use. If land is disqualified, an additional tax may be required. The additional tax is equal to the sum of the tax benefit received 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 is not requested by the owner, no additional tax is imposed.

Unzoned Farm Land

An application must be filed for special assessment of unzoned farm land. In addition to being in farm use, unzoned farm land must be part of a farm unit that earns a minimum gross income from farm use in three of the last five years. For farms of more than 6 but less than 30 acres, the minimum income required is \$100 per acre. For farms of less than 6 acres, 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 taxes are equal to the sum of all tax benefits received in prior years (up to five) of special assessment. If land is disqualified for current special assessment because the gross income tax is not met, the additional taxes are deferred as long as the land remains in farm use and one year of additional taxes is forgiven for each year the land remains in farm use.

- PURPOSE:** To preserve the agricultural economy of the state, to protect natural resources and open space, to prevent urban growth and development influences from increasing land values to the point where farming is no longer an economically viable use of the land, and to limit expansion of urban development into rural areas.
- WHO BENEFITS:** Farmers benefit directly. Oregon residents in general also benefit through a healthy agricultural economy, through the preservation of natural resources and open space, and through more efficient development patterns. About 15.6 million acres of land is assessed at farm use value with 16 percent in western Oregon and 84 percent in eastern Oregon. Of this total, about 82 percent is zoned farm use land and 18 percent is unzoned.
- EVALUATION:** The special farm use assessment of land zoned for exclusive farm use has played an essential part in achieving Oregon's Agricultural Land Use Policy to preserve the maximum amount of agricultural land in large blocks. It is the primary incentive offered to encourage owners of rural lands to hold such lands in exclusive farm use zones. (See ORS 215.243). The effective protection of agricultural land requires well-coordinated special assessment and land use programs.

However, the unzoned special farm use assessment program can conflict with Oregon’s land use program in both urban and rural areas. In urban areas, it discourages timely development by lowering an owner’s holding costs and encouraging speculation. In rural areas, the requirement to apply for special assessment and meet a minimum income is a disincentive to property owners to rezone appropriate areas for rural residential development and also makes development in exclusive farm use areas (where there is no application or income requirement) more attractive to those seeking a rural homesite. *[Evaluated by the Department of Land Conservation and Development.]*

2.038 FARM HOMESITES

Oregon Statute: 308.377

Sunset Date: None

Year Enacted: 1987

1997–98 Assessed Value of Property Exempted: \$148.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$3,800,000	\$700,000	\$4,500,000
1999–01 Revenue Impact:	\$4,100,000	\$800,000	\$4,900,000

DESCRIPTION: A farm homesite being used in conjunction with specially assessed farm land has a special assessed property value. The homesite maximum value is calculated as the average per acre assessed value 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. The homesite is limited to one acre. If disqualified, no additional tax is imposed.

PURPOSE: To improve the financial viability of farming by reducing the property tax burden, and to reduce the incentive to convert productive farm land to urban uses.

WHO BENEFITS: The number of farm homesites in Oregon is estimated at about 30,000. This includes homesites used for a combination of farm and forestry. The average value exempted is about \$5,000 per homesite.

The value per acre of farm land tends to decrease as the farm acreage increases. Thus hobby farm homesite special values under this statute are likely to be higher than the homesite special value for larger farms.

EVALUATION: Extending special farm assessments to farm homesites reinforces the effects of special assessments for farm land evaluated in 2.037. *[Evaluated by the Department of Land Conservation and Development.]*

2.039 FARM MACHINERY AND EQUIPMENT

Oregon Statute: 307.400 (3)

Sunset Date: None

Year Enacted: 1973

1997–98 Assessed Value of Property Exempted: \$1.5 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$29,600,000	\$5,400,000	\$35,000,000
1999–01 Revenue Impact:	\$32,700,000	\$6,000,000	\$38,700,000

DESCRIPTION: 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. Specifically included are components of center pivot irrigation systems, frost control systems, trellises, hop harvesting equipment, oyster racks and other in-water structures used to raise bi-valve mollusks, equipment used in the egg industry, and meteorological and radio communication equipment used in monitoring field burning smoke.

PURPOSE: To improve the financial viability of farming.

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.]*

2.040 MOBILE FIELD INCINERATORS

Oregon Statute: 307.390

Sunset Date: None

Year Enacted: 1971

1997–98 Assessed Value of Property Exempted: \$700,000

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	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. The Oregon Department of Agriculture currently manages field burning operations in Oregon.

Property Tax

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

WHO BENEFITS: The Department of Agriculture is aware of only one mobile field incinerator currently in use. Because of the high costs of operation, it is unlikely more will be built.

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.]

2.041 CROPS, PLANTS, AND FRUIT TREES

Oregon Statute: 307.320

Sunset Date: None

Year Enacted: 1957

1997–98 Assessed Value of Property Exempted: \$911.7 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$18,600,000	\$3,400,000	\$22,000,000
1999–01 Revenue Impact:	\$20,900,000	\$3,800,000	\$24,700,000

DESCRIPTION: Deciduous trees, shrubs, plants, crops, cultured Christmas trees, and cultivated hardwood trees growing on agricultural land are exempt from local property taxation.

PURPOSE: To improve the financial viability of farming by reducing the property tax burden and to eliminate the filing of personal property tax returns for farmers. The statute was passed to maintain the status quo of not taxing these plants after a court case found them taxable.

WHO BENEFITS: Oregon has about 2.8 million acres of harvested cropland (excluding Christmas trees). Roughly a third of the exempt value is for vineyards, berries and fruit and nut trees, a third for annual row and other crops, and a third for Christmas trees.

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 expenditures is the most fiscally effective means of achieving its purpose. [Evaluated by the Department of Agriculture.]

2.042 FARM ANIMALS AND BEES

Oregon Statute: 307.400(1)

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: \$1.1 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$22,700,000	\$4,200,000	\$26,900,000
1999–01 Revenue Impact:	\$25,600,000	\$4,700,000	\$30,300,000

DESCRIPTION: Livestock, poultry, fur-bearing animals, and bees are exempt from local property taxation.

PURPOSE: To eliminate the burden of enumerating livestock inventories and filing personal property tax returns, to provide tax relief to small farmers, and to eliminate behavior specifically aimed at reducing livestock inventories on the date of assessment.

WHO BENEFITS: Most of the exempt value for farm animals is for calves and cattle. About 17,000 farms in Oregon raise some cattle.

EVALUATION: This tax expenditure is successful in achieving its purpose. It has provided some relief to small farmers and eliminates the incentive to move animals to market specifically for inventory reduction purposes. This allows small operators to market at the most advantageous time for them, taking into account market factors and the condition of the animals. This, in turn, stabilizes the effect on other businesses supported by the small farmer.

The tax expenditure is the most fiscally effective means of achieving its purpose because the business is so volatile and cyclical, and values can vary dramatically within a year's time. [*Evaluated by the Department of Agriculture.*]

2.043 AGRICULTURAL PRODUCTS HELD BY FARMER

Oregon Statute: 307.325

Sunset Date: None

Year Enacted: 1965

1997–98 Assessed Value of Property Exempted: Included in 2.041 Crops, Plants, and Fruit Trees

	Loss	Shift	Total
1997–99 Revenue Impact:			Included in 2.041
1999–01 Revenue Impact:			Included in 2.041

DESCRIPTION: Agricultural products in the possession of the farmer who produced them or acquired them for use in the farm operation are exempt from local property taxation. These products are grain, seed, hay, fruit, vegetables, nuts, hops, wool, fish, poultry held for sale, butter, cheese, evaporated, condensed or concentrated milk, mint, and bivalve mollusks. Most products held by farmers are considered inventories and are exempt under the inventory exemption of the property tax. This provision exempts those products not covered by the inventory exemption, which is a relatively small amount.

Property Tax

- PURPOSE:** To improve the financial viability of farming. The statute was passed to maintain the status quo of not taxing these products.
- WHO BENEFITS:** Farmers, primarily those who 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.]*

2.044 NURSERY STOCK

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

1997–98 Assessed Value of Property Exempted: \$367.1 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$7,600,000	\$1,400,000	\$9,000,000
1999–01 Revenue Impact:	\$9,100,000	\$1,700,000	\$10,800,000

- 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. The statute was passed to maintain the status quo of not taxing nursery stock and to treat it the same as farm plants and crops.
- 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 (2.041) and with the exemption of inventories in non-agricultural industries (2.013). 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.]*

2.045 LEASED PUBLIC FARMING AND GRAZING LAND

Oregon Statute: 307.110 (3)(b)

Sunset Date: None

Year Enacted: 1971

1997–98 Assessed Value of Property Exempted: Included in 2.087 State and Local Property

	Loss	Shift	Total
1997–99 Revenue Impact:			Included in 2.087
1999–01 Revenue Impact:			Included in 2.087

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 by persons for agricultural or grazing uses who do not pay a cash rent or share of the crop is exempt from local property taxation. In some cases, the lessee performs a service in return 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 encourage leasing of small parcels of government land (that would be exempt anyway if not leased) to avoid government land maintenance costs.

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 program 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.*]

2.046 LEASED FEDERAL GRAZING LAND

Oregon Statute: 307.060

Sunset Date: None

Year Enacted: 1961

1997–98 Assessed Value of Property Exempted: Included in 2.098 Federal Property

	Loss	Shift	Total
1997–99 Revenue Impact:			Included in 2.098
1999–01 Revenue Impact:			Included in 2.098

DESCRIPTION: 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 leases grazing land based on animal unit months (AUM) rather than acres. An animal unit month is defined as the amount of grazing land needed to sustain a cow for a month.

PURPOSE: To provide property tax relief to livestock owners and to avoid the difficulty of valuing the property with its restrictions. The exemption reinstates the status quo after a court decision in 1961 found such land taxable. The exemption also avoids “double taxation” since part of the fee income to the federal government is shared with local governments.

WHO BENEFITS: Farmers and ranchers who lease federal land for grazing. The expenditure may also benefit local communities through increased economic activity. In 1995, the Bureau of Land Management issued permits and leases for 857,000 AUMs.

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

2.047 OYSTER GROWING ON STATE LAND

Oregon Statute: 622.290

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: \$1.1 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	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 four dollars per acre (increased from two dollars in 1997) and the use tax is ten cents per gallon (increased from five cents) if the oysters are sold shucked or ten cents per bushel if they are sold in the shell. The value of oyster production on these lands was an estimated \$1.1 million in 1997. The total acreage of submersed state estuary land has been rather stable for the past five years. Production of shucked oysters harvested, about sixteen thousand gallons per year, has remained about the same as well.

- PURPOSE:** To provide tax relief to oyster growers and to avoid the difficulty of valuing the property with its restrictions. The exemption maintained the status quo after attempts were made to tax oyster beds.
- 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 \$11,422 in fees in 1997–98. The in lieu fees were for leasing 3,607 acres and producing 28,256 gallons of oysters.
- 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.*]

2.048 POLLUTION CONTROL FACILITIES

Oregon Statute: 307.405

Sunset Date: 12-31-03

Year Enacted: 1967

1997–98 Assessed Value of Property Exempted: \$32.4 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$800,000	\$200,000	\$1,000,000
1999–01 Revenue Impact:	\$900,000	\$200,000	\$1,100,000

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, or noise 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 an air, water, or noise 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.

This exemption is a companion to the Pollution Control credit (1.135) on the income tax. For-profit companies are eligible for the income tax credit, while non-profits and cooperatives are eligible for the property tax exemption.

PURPOSE: The purpose is 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). The tax relief helps to offset the cost of government imposed requirements for reducing pollution and to encourage the reduction of pollution even if not required.

WHO BENEFITS: 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 non-profits for installing facilities required by the Department of Environmental Quality or by the U.S. Environmental Protection Agency; defined as “principal purpose facilities.”

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 non-profits, an incentive similar to the income tax credit available to for-profit businesses. (See 1.135.) Since 1995, no cooperatives or non-profits have applied for a tax credit. 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 they are required by law. [*Evaluated by the Department of Environmental Quality.*]

2.049 NONPROFIT SEWAGE TREATMENT FACILITIES

Oregon Statute: 307.118

Sunset Date: None

Year Enacted: 1997

1997–98 Assessed Value of Property Exempted: \$200,000

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: Passed by the 1997 legislature, HB 3495 created an exemption from property taxes 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; refunding and abating 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 a specific sewage treatment facility.

WHO BENEFITS: There appears to only 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 three homes and 17 businesses comprising the membership of the Mapleton Commercial Area Owners’ Association.

EVALUATION: This legislation was designed to provide an economic benefit to one nonprofit business association. This it accomplishes. However, this subsidy serves no public policy purpose and raises issues of fairness with other privately owned sewage treatment works not so benefited.

Mapleton is an unincorporated area of Lane County with a small community sewer system collecting domestic wastes from three homes and 17 businesses. Typically, a system with the scale and function of Mapleton's would be owned and operated by some type of local government. In unincorporated areas, the operation would usually be through one of several forms of special purpose districts with an independent, elected legislative board or a county service district overseen by the Board of County Commissioners. Having a sewer utility run by a private nonprofit corporation is odd, perhaps unique.

The inferred reason for such an organizational form is to maintain control in the hands of the owners of the 17 businesses, and to free the organization from the accountability and controls imposed on governmental organizations. That is, if the utility were owned by a special district, it would be responsible to a board elected from and by residents of the district. The business owners are likely not residents, and so would lose control if a district were formed. Likewise, any governmental form of organization would require submission of audited annual financial statements to the Secretary of State, as well as governing board compliance with the open meetings law, governmental ethics, and the public records law. As a nonprofit corporation, they are not subject to any of those governmental requirements, nor is rate setting regulated by the Public Utility Commission. They also have better access to protection from creditors through chapter 7 and chapter 11 bankruptcy protection than is available to a municipal corporations.

There are many other privately owned community sewer systems in the state. A number of destination resorts own their own systems, some of which are quite large. Additionally, there are scores (maybe hundreds) of trailer and recreational vehicle parks. They just aren't organized as nonprofits. If they can save money by changing their organizational form without losing control, they may. They may also seek to amend this law to extend its benefits more broadly.

Originally, choosing to organize as a private nonprofit corporation did impose one cost. This was liability to pay ad valorem property taxes on the real and personal property of the corporation. HB 3495 eliminates this liability to pay property taxes. [*Evaluated by the Department of Environmental Quality.*]

2.050 RIPARIAN HABITAT LAND

Oregon Statute: 308.796

Sunset Date: 7-1-04

Year Enacted: 1981

1997–98 Assessed Value of Property Exempted: \$200,000

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: Land designated as riparian land by the State Department of Fish and Wildlife is exempt from local property taxation. Riparian land is defined as 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 streambank. Only riparian land zoned as forest or agricultural and range lands in compliance with statewide planning goals and located outside urban growth boundaries may qualify. The Department of Fish and Wildlife can designate 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 streambank in any one county.

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.

The exemption ends July 1, 2004. All exempt riparian land will be taxable in the 2004–05 tax year.

PURPOSE: To maintain riparian habitat in a healthy condition to control erosion, improve water quality, and prolong streamflow. It is also 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 308.793).

WHO BENEFITS: Owners of riparian land that has been designated by the Department of Fish and Wildlife. The general public also benefits if the program is effective in improving riparian habitat.

As of August of 1996 the Department of Fish and Wildlife had approved 750 acres along roughly 60 miles of streams. One hundred and ten landowners participate. About 75 percent of the acres are in 14 western counties and 25 percent in six eastern counties.

EVALUATION: This expenditure, as amended in SB 774 in 1997, may be more effective than it was previously. However, the usage and data around this expenditure are not conclusive. The exemption is likely still a less effective incentive for promoting the improvement of riparian habitat than is the Fish Habitat Improvement credit (1.139) available under the income tax. For this reason, the Department of Fish and Wildlife has concentrated its efforts on promoting the Fish Habitat Improvement credit.

With increased efforts to save Oregon salmon runs, the Riparian Habitat Land exemption might 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 land, so the exemption provides a relatively small reduction in taxes. Second, land inside urban growth boundaries is excluded from the program. And third, the program limits the amount of riparian land that can be certified to not more than 200 miles of streambank per county. Removing the latter two restrictions, and modifying the provisions to allow for larger tax reductions, would make the program more effective. [Evaluated by the Department of Fish and Wildlife.]

2.051 ETHANOL PRODUCTION FACILITY

Oregon Statute: 307.701

Sunset Date: 7-1-08

Year Enacted: 1993

1997–98 Assessed Value of Property Exempted: \$0

	Loss	Shift	Total
1997–99 Revenue Impact:	\$0	\$0	\$0
1999–01 Revenue Impact:	\$0	\$0	\$0

DESCRIPTION: An ethanol production facility is 50 percent exempt from local property taxation for five years if:

- construction begins after July 1, 1993,
- production begins within four years of the first July 1 exemption, and
- the State Dept. of Agriculture certifies the facility produces ethanol capable of blending 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 in order to alleviate dependence on foreign oil, as well as to encourage an alternative method to dispose of agricultural waste. In 1993 the exemption was shifted from a fuel tax exemption to a property tax exemption in order to focus the incentive on ethanol produced in Oregon. The shift also allowed the state to maintain an incentive without cutting revenue to the highway fund with a fuel tax exemption.

WHO BENEFITS: Currently no ethanol production facilities exist in Oregon.

EVALUATION: This exemption has not been effective in achieving its purpose. A few businesses have explored the possibility of building a fuel-grade ethanol plant in Oregon, but none have done so. Given the current market, an ethanol facility is likely not an economic venture even with the property tax exemption and other incentives provided by the state and federal government. (Those incentives include tax credits, low-interest loans, and a federal gasoline tax reduction for ethanol blends.) If an ethanol facility is to become economic in the near future, it would require more government subsidies to bring down building and operating costs or a change in market conditions or technology to make ethanol production profitable. [Evaluated by the Office of Energy.]

2.052 ALTERNATIVE ENERGY SYSTEMS

Oregon Statute: 307.175

Sunset Date: 7-1-02

Year Enacted: 1975

1997–98 Assessed Value of Property Exempted: \$109.2 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$2,800,000	\$500,000	\$3,300,000
1999–01 Revenue Impact:	\$3,100,000	\$600,000	\$3,700,000

DESCRIPTION: Solar, geothermal, wind, water, 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: The exemption is 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: There are roughly 20,000 alternative energy properties: 19,000 residential properties and 1,000 businesses with solar or other renewable systems in place.

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 Business Energy Tax Credit (1.142) and the Alternative Energy Tax Credit (1.141) 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 Office of Energy.*]

2.053 STATE AND LOCAL STANDING TIMBER UNDER CONTRACT

Oregon Statute: 307.100

Sunset Date: None

Year Enacted: 1965

1997–98 Assessed Value of Property Exempted: \$90 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,800,000	\$300,000	\$2,100,000
1999–01 Revenue Impact:	\$1,800,000	\$300,000	\$2,100,000

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, state or local government standing timber is exempt from property taxation even if held under a contract of sale. Unless exempted, the timber would fall under the general rule that state and local government property held under contract of sale by a private buyer is taxable.

PURPOSE: The exemption was to maintain the status quo after a court decision allowing taxation. Taxing timber under contract would be contrary to the tax treatment of other standing timber in Oregon, which under current law is treated as a crop, not as real property.

WHO BENEFITS: The volume of state timber under contract was about 242 million board feet in 1996. The volume of local timber under contract is unknown but is thought to be small.

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 Forestry Department.*]

2.054 WESTERN PRIVATE FOREST LAND

Oregon Statute: 321.352

Sunset Date: None

Year Enacted: 1977

1997–98 Assessed Value of Property Exempted: \$2.3 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$45,900,000	\$8,400,000	\$54,300,000
1999–01 Revenue Impact:	\$48,600,000	\$8,900,000	\$57,500,000

DESCRIPTION: Privately owned forest land in Western Oregon is subject to local property taxation using a special value. Beginning in 1995–96 land values are set statutorily by site class (from \$1 to \$720 per acre). The special assessment value is 20 percent of the statutory, resulting in an exemption of 80 percent. For subsequent years the statutory values are indexed by 50 percent of a 7-year moving average change in log purchase values. Subsequent year special assessment values are 20 percent of the indexed values.

A privilege tax on the timber value is imposed at time of harvest in lieu of the property taxes exempted under this special assessment. Note that the privilege tax is in lieu of the tax on timber land, not the timber itself. In Oregon, timber is treated as a crop and exempt from local property taxes. The privilege tax rate 3.2 percent.

Property Tax

Privilege tax revenue is distributed by formula to local taxing districts. The formula allocates revenue based on the tax rate, value of timber harvested, and the forest land assessed value in the district.

PURPOSE: To promote the retention of forest land in forest use and to remove the incentive for earlier harvest that annual taxation creates. The current purpose is to tax forest land “based on the value of the forest land in timber production,” and to collect “the majority of the tax ... at the time of harvest.” (ORS 321.259(5))

WHO BENEFITS: Private forest land owners. There are approximately 5.6 million acres of private forest land in western Oregon.

IN LIEU: Recent privilege tax collections are as follows:

1991–92	\$48.9 million
1992–93	\$45.3 million
1993–94	\$56.3 million
1994–95	\$61.6 million
1995–96	\$49.9 million
1996–97	\$40.9 million
1997–98	\$34.6 million

EVALUATION: This expenditure appears to be achieving its purpose. The tax treatment of private timber land in concert with land-use planning promotes the retention of forest land in forest uses. It is debatable whether the tax treatment or the land-use planning provisions are more important in achieving the purpose. What seems evident is that the combination is working to retain the land in forest use. [*Evaluated by the Forestry Department.*]

2.055 WESTERN PRIVATE STANDING TIMBER

Oregon Statute: 321.272

Sunset Date: None

Year Enacted: 1977

1997–98 Assessed Value of Property Exempted: \$43.9 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$883,000,000	\$161,000,000	\$1,044,000,000
1999–01 Revenue Impact:	\$936,000,000	\$171,000,000	\$1,107,000,000

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

PURPOSE: To promote retention of forest land in forest uses and to remove the incentive for earlier harvest that annual taxation creates. Currently, timber is treated as a crop (not taxed) rather than as real property, and 80 percent of the tax on land is postponed until the time of harvest when it is collected as a severance tax on the value of timber harvested.

WHO BENEFITS: Private timber owners benefit directly. The general public benefits indirectly because, due to the current tax treatments, forest land owners delay timber harvests for an indeterminate period. During this period, non-commercial values which accrue to the public are maintained and increased, notably wildlife habitat, clean air and water, visual quality, etc.

EVALUATION: The purpose of holding off on pre-mature harvests of private timber appears to be being achieved. When the Douglas-fir stumpage market rose sharply in 1993–94, there was an increase in the harvest of 80+ year old timber in Western Oregon. However, the available inventory of that age timber exceeded the harvest, so there are still 80+ year old stands in private ownership, suggesting that higher stumpage prices do not cause harvesting of pre-mature trees. There are indications that the bulk of the timber harvests are of 60+ year old timber, and that the total private timber harvest, while declining very slightly since the late 1950s, has been essentially level through the past 5–7 years.

Information is lacking on the effectiveness of other methods of discouraging pre-mature 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 Forestry Department.*]

2.056 WESTERN SMALL TRACT OPTION

Oregon Statute: 321.720

Sunset Date: None

Year Enacted: 1961

1997–98 Assessed Value of Property Exempted: \$184.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$3,700,000	\$700,000	\$4,400,000
1999–01 Revenue Impact:	\$3,900,000	\$700,000	\$4,600,000

DESCRIPTION: Owners of more than ten and less than 5,000 acres of timber in Western Oregon may be taxed for property tax purposes under the Western Oregon Small Tract Optional Tax (WOSTOT), which sets assessed values on timber land based on the productivity, rather than a measure related to market value, of the land. Prior to 1997–98, participants paid tax on the combined value of the land and the standing timber. Starting in the 1997–98 tax year only the land is taxed. Owners must elect this option before the average size of their timber becomes eight inches in diameter at breast height.

The land is classified in one of five possible site classes based on the productivity of the land. Until 1997–98, the site class values were based on income using a statutory 17 percent capitalization rate. The site class value applied both to the land and timber and became the assessed value in the normal property tax process. Starting in 1997–98, site class values are set by statute rather than by an income capitalization approach, and the values apply only to the land: the value of the timber was exempted from the property tax. Because the statutory site class values are below those that typically resulted from the income capitalization approach, the result is lower taxes for WOSTOT participants. WOSTOT participants pay property taxes on 100 percent of the values established by statute, while other private timber harvesters pay on 20 percent of the statutory value. WOSTOT participants, however, are exempt from the timber privilege taxes paid by other private timber owners at the time of harvest.

PURPOSE: The special assessment is to give small land owners the option of a property tax assessed value based on productivity. The intent is to encourage small owners to hold their timber to maturity before harvest. The pre-1977 tax system forced “smaller owners with predominantly young growth holdings to harvest their timber before it has properly matured because of the constantly increasing taxes imposed on the timber and the lack of sufficient annual income from mature timber to meet the overall tax burden.” (ORS 321.710).

Property Tax

WHO BENEFITS: Owners of small tracts of timberland who select this optional tax treatment. In 1997 small tract acreage was 170,000. About 45 percent of the acreage is in Clackamas, Lane and Washington counties.

EVALUATION: This expenditure appears to be effective in providing an option for small timber owners. The bulk of forest landowners pays property taxes on 20 percent of the value of the land alone in each year, and on the remainder of the value as part of the severance tax payments at the time of harvest. With the changes made in by the 1997 legislature, WOSTOT participants pay the tax on 100 percent of the value of the land, but are exempt from the privilege tax at time of harvest. The class of landowner for whom the WOSTOT program makes sense tend to harvest a small amount of timber each year, or at least at closely spaced intervals if not annually. This group of landowners tends to manage its forests quite intensively, and likely produces (per acre) more timber than the “model” forest. The WOSTOT results in similar property taxes as under the “standard” property tax program for forest lands, but grants an exemption from the timber privilege tax. It appears to be working as a method to reduce taxes for some small timber land owners.

The requirements that pertain to WOSTOT require some level of inspection, which requires an additional level of government expenditure over that required for the “standard” system (which has inspection provisions for the State Forester, but these have not been funded). It is likely that the WOSTOT is thus not the “cheapest” system, but as the name suggests, an “Optional” or alternative one, and it appears to be a working, positive incentive to more efficiently grow crops of timber on non-industrial forest land. [*Evaluated by the Forestry Department.*]

2.057 EASTERN PRIVATE FOREST LAND

Oregon Statute: 321.810

Sunset Date: None

Year Enacted: 1971

1997–98 Assessed Value of Property Exempted: \$190.0 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$3,900,000	\$700,000	\$4,600,000
1999–01 Revenue Impact:	\$4,100,000	\$800,000	\$4,900,000

DESCRIPTION: Privately owned forest land in Eastern Oregon is subject to local property taxation using a special value. Beginning in 1995–96 land values are set statutorily at \$42 per acre. The special assessment value is 20 percent of the statutory value (\$8.40 per acre), resulting in an exemption of 80 percent. For subsequent years the statutory values are indexed by 50 percent of a 5-year moving average change in log purchase values. Subsequent year special assessment values are 20 percent of the indexed values.

A privilege tax on the timber value is imposed at time of harvest in lieu of the property taxes exempted under the special assessment. The tax applies at time of harvest rather than annually and is based on the value of the harvested tree. The privilege tax rate is 1.8 percent.

The revenue is distributed by formula to local tax districts with timber as an offset to district property tax levies. The formula allocates revenue based on the frozen 1964 timber values and district property tax rates.

PURPOSE: To promote the retention of forest land in forest use and to remove the incentive for earlier harvest that annual taxation creates. The current purpose is to tax forest land “based on the value of the forest land in timber production,” and to collect “the majority of the tax ... at the time of harvest.” (ORS 321.259(5))

WHO BENEFITS: Private forest land owners. There are approximately 1.5 million acres of private forest land in eastern Oregon.

IN LIEU: Recent privilege tax collections are as follows:

1991–92	\$4.5 million
1992–93	\$6.5 million
1993–94	\$7.9 million
1994–95	\$6.8 million
1995–96	\$5.2 million
1996–97	\$2.9 million
1997–98	\$2.7 million

EVALUATION: This expenditure appears to be achieving its purpose. The tax treatment of private timber land in concert with land-use planning promotes the retention of forest land in forest uses. It is debatable whether the tax treatment or the land-use planning provisions are more important in achieving the purpose. What seems evident is that the combination is working to retain the land in forest use. [*Evaluated by the Forestry Department.*]

2.058 EASTERN PRIVATE STANDING TIMBER

Oregon Statute: 321.420

Sunset Date: None

Year Enacted: 1961

1997–98 Assessed Value of Property Exempted: \$8.6 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$172,000,000	\$31,000,000	\$203,000,000
1999–01 Revenue Impact:	\$182,000,000	\$33,000,000	\$215,000,000

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

PURPOSE: To promote retention of forest land in forest uses and to remove the incentive for earlier harvest that annual taxation creates. Currently, timber is treated as a crop (not taxed) rather than as real property, and 80 percent of the tax on land is postponed until the time of harvest when it is collected as a severance tax on the value of timber harvested. The severance tax approach was used for eastern Oregon earlier than western because by 1961 most large old growth eastern timber stands had been cut and the growing cycle is longer.

Property Tax

WHO BENEFITS: Private timber owners benefit directly. The general public benefits indirectly because, due to the current tax treatments, forest land owners delay timber harvests for an indeterminate period. During this period, non-commercial values which accrue to the public are maintained and increased, notably wildlife habitat, clean air and water, visual quality, etc.

EVALUATION: The purpose of holding off on pre-mature harvests of private timber appears to be being achieved. Information is lacking on the effectiveness of other methods of discouraging pre-mature 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 Forestry Department.*]

2.059 FOREST HOMESITES

Oregon Statute: 308.229

Sunset Date: None

Year Enacted: 1989

1997–98 Assessed Value of Property Exempted: \$40.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,000,000	\$200,000	\$1,200,000
1999–01 Revenue Impact:	\$1,100,000	\$200,000	\$1,300,000

DESCRIPTION: A forest homesite being used in conjunction with growing and harvesting trees on forest land has a special property tax value. The homesite must be on a parcel of more than 10 acres and be on land zoned for forest or farm use. The homesite maximum value is the average per acre assessed value for the contiguous bare forest land under the same ownership plus up to \$4,000 for land improvements. Land improvements include a well and septic system necessary for a homesite. The homesite is limited to one acre.

PURPOSE: To improve the financial viability of growing and harvesting trees on forest land by reducing the cost of taxation. The special assessment grants forest homesites the same treatment as farm homesites.

WHO BENEFITS: The number of forest homesites specially assessed is estimated at 8,000 excluding homesites used for both farm and forestry (see 2.038 Farm Homesites). The average value exempted is about \$5,000 per homesite.

EVALUATION: Extending special forest assessments to forest homesites reinforces the effects of special assessments for forest land. [*Evaluated by the Forestry Department.*]

2.060 FEDERAL STANDING TIMBER UNDER CONTRACT

Oregon Statute: 307.050

Sunset Date: None

Year Enacted: 1965

1997–98 Assessed Value of Property Exempted: \$401.0 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$7,600,000	\$1,400,000	\$9,000,000
1999–01 Revenue Impact:	\$6,600,000	\$1,200,000	\$7,800,000

DESCRIPTION: Federal standing timber is exempt from property tax even if held under a contract of sale. Unless exempted, the timber would fall under the general rule that federal property held under contract of sale by a private buyer with right of use is taxable.

PURPOSE: The exemption was probably to maintain the status quo after a court decision allowing taxation. Taxing timber under contract would be contrary to the tax treatment of other 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 own their own timber 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 Forestry Department.*]

2.061 PRIVATE FARM AND LOGGING ROADS

Oregon Statute: 308.236

Sunset Date: None

Year Enacted: 1963

1997–98 Assessed Value of Property Exempted: \$1.4 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$27,100,000	\$5,000,000	\$32,100,000
1999–01 Revenue Impact:	\$28,800,000	\$5,300,000	\$34,100,000

DESCRIPTION: Farm, grazing and logging roads on private land are exempt from local property taxation. Roads include culverts, drains, fill, surfacing, and bridges. 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 purpose was probably 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.

Property Tax

WHO BENEFITS: Owners of farm and timber land 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 Forestry Department.]

2.062 FOREST FIRE PROTECTION ASSOCIATION

Oregon Statute: 307.125

Sunset Date: None

Year Enacted: 1957

1997–98 Assessed Value of Property Exempted: \$6.8 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$180,000	\$30,000	\$210,000
1999–01 Revenue Impact:	\$190,000	\$30,000	\$220,000

DESCRIPTION: All property of forest and vegetation protection groups is exempt from local property taxation if the property is used exclusively for fire suppression or forest protection. ORS Chapter 477 provides for the establishment of a variety of forest and vegetation protection groups. These groups include forest protection districts, cooperative agreements between the State Forester and Forest Protective Associations, and joint or separate agreements between state and federal agencies and local governments, corporations, landowner organizations, and similar groups.

PURPOSE: To treat these groups the same as publicly owned fire departments and to help keep the cost of protecting timber assets low.

WHO BENEFITS: The forest fire protection associations. Most of the property of fire protection associations has been deeded over to the Department of Forestry and the associations work under contract with the Department. Currently there are three fire protection associations operating in the state, one in Douglas County, one in Coos County, and one serving multiple counties in eastern Oregon.

EVALUATION: This provision is effective in achieving its purpose. The costs of providing forest fire prevention and suppression varies between 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 Forestry Department.]

2.063 INACTIVE MINERAL INTERESTS

Oregon Statute: 308.115

Sunset Date: None

Year Enacted: 1997

1997–98 Assessed Value of Property Exempted: \$0

	Loss	Shift	Total
1997–99 Revenue Impact:	\$60,000	\$10,000	\$70,000
1999–01 Revenue Impact:	\$110,000	\$20,000	\$130,000

DESCRIPTION: Mineral interests owned separately from surface interests are exempt from local property tax if the property is not being mined. The exemption first applies in tax year 1998–99.

PURPOSE: To eliminate the administrative burden of assessing those accounts, when the administrative cost might be higher than the tax generated.

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. [*Evaluated by the Department of Revenue*]

2.064 NATURAL HERITAGE CONSERVATION AREAS

Oregon Statute: 307.550

Sunset Date: 12-31-99

Year Enacted: 1983

1997–98 Assessed Value of Property Exempted: \$0

	Loss	Shift	Total
1997–99 Revenue Impact:	\$0	\$0	\$0
1999–01 Revenue Impact:	\$0	\$0	\$0 *

* Revenue impact takes into account the sunset.

DESCRIPTION: Property that has retained its natural character and is valuable as habitat for plant and animal species, for the study and appreciation of natural features as a living museum for educational purposes, scientific research, and nature interpretation is exempt from local property taxation.

To be eligible the property must (1) be identified in an instrument of dedication, and (2) be managed in compliance with a plan approved by the State Land Board. The owner must file an application with the county assessor to claim the exemption. Owners of land zoned for Exclusive Farm Use, which has been subject to deferred taxes, can designate and manage it as a Natural Heritage Conservation Area without having to pay the normal penalty for converting that land to another use.

If the property is not managed as agreed, the land is disqualified and additional taxes equal to the tax benefit during the last five years exempt are due. Additional taxes are not due if the Advisory Council determines the property is no longer needed or if fire or other natural disaster destroys the property.

PURPOSE: The exemption is to promote the protection of natural areas “through the voluntary cooperation of private landowners and public land managers” (ORS 273.566).

WHO BENEFITS: No privately owned land is currently exempt under this statute. Conservancy groups receive an exemption on property for charitable, literary, and scientific use (2.094), which is less restrictive.

EVALUATION: This exemption does not appear to be achieving its purpose, at least for private, for-profit lands. The provision has the same goal as a conservation easement, but is more easily revocable. For that reason, it appears that this provision does not provide a strong enough incentive to result in much participation. No privately owned land is currently exempt under this statute. In recent years the Natural Heritage Advisory Council has received a few inquiries regarding the exemption, but no applications have been made. *[Evaluated by the Division of State Lands.]*

2.065 LEASED STATE LAND BOARD LAND

Oregon Statute: 307.168

Sunset Date: None

Year Enacted: 1982

1997–98 Assessed Value of Property Exempted: \$13.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$270,000	\$50,000	\$320,000
1999–01 Revenue Impact:	\$290,000	\$50,000	\$340,000

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 Division 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.

PURPOSE: The exemption is to maintain the status quo of leased State Land Board land, after a 1982 Supreme Court decision ruled that certain land leased from the Board to a private party was taxable.

WHO BENEFITS: The State Land Board has about \$1.5 million in lease revenue per year from grazing land and waterways for the Common School Fund. The primary beneficiaries are Oregon’s K–12 public schools, so the main effect of taxation would likely be to reduce potential lease income to the Common School Fund. Lessees may also benefit from the tax exemption, but it has been argued that lessees are unaffected because they would attempt to keep their out-of-pocket expenses the same by asking for reduced lease rates if lessees were required to pay 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 Division of State Lands.]*

2.066 CRAB POTS

Oregon Statute: 508.270

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: \$7.9 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$200,000	\$40,000	\$240,000
1999–01 Revenue Impact:	\$220,000	\$40,000	\$260,000

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 after an Attorney General opinion determined that crab pots were not an integral part of a commercial fishing boat (taxed at four percent of value), but should be taxed as personal property (taxed at 100 percent of value). The exemptions 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 four percent of value.

WHO BENEFITS: About 125,000 commercial crab pots are used in the coastal counties. Non-commercial crab pots are exempt as personal property for personal use (2.085).

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.*]

2.067 PLEASURE BOATS

Oregon Statute: 830.790

Sunset Date: None

Year Enacted: 1959

1997–98 Assessed Value of Property Exempted: \$1.3 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$34,900,000	\$6,500,000	\$41,400,000
1999–01 Revenue Impact:	\$38,600,000	\$7,200,000	\$45,800,000

DESCRIPTION: Pleasure 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: The exemption is an extension of the personal property for personal use exemption to boats (similar to that for motor vehicles) and to avoid administrative problems dealing with a very mobile property.

WHO BENEFITS: In 1997 about 197,000 boats were registered in Oregon as pleasure boats.

IN LIEU: Fees for registration as an in lieu payment were increased in 1997 and will be about \$5.6 million in the 1997–99 biennium. Certificate fees range from \$15 to \$25 for boats up to 20 feet in length. The fee for boats 20 or more feet is \$30 plus an additional two dollars per foot for each foot over 20 feet.

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 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.*]

2.068 WATERCRAFT LOCALLY ASSESSED

Oregon Statute: 308.256

Sunset Date: None

Year Enacted: 1925

1997–98 Assessed Value of Property Exempted: \$65.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$1,700,000	\$300,000	\$2,000,000
1999–01 Revenue Impact:	\$1,900,000	\$400,000	\$2,300,000

DESCRIPTION: Oregon private commercial watercraft not involved in transporting people or goods for hire and not numbered or registered by the State Marine Board (i.e., those with Coast Guard marine documents) are specially assessed for property tax by county assessors.

- Ships and vessels used on inland waters are 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 assessed at four percent of assessed value. Off-shore self-propelled oil drilling rigs are also assessed at four 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.

Watercraft that are not “ships” or “vessels”, such as dredges, museum ships, and restaurant ships, are assessed at 100 percent of assessed value. In addition, any vessel used for deep-sea fish reduction or processing (but not canning) is assessed at 100 percent of assessed value.

Non-Oregon private commercial boats of non-centrally assessed companies might be taxable (at 100 percent of value) if they are used significantly in Oregon. However, it is difficult to prove a tax situs in Oregon for non-Oregon boats.

Floating homes and houseboats are taxed at 100 percent of assessed value.

PURPOSE: The exemption is probably an attempt to relate the taxable value to value attributable to use in Oregon.

WHO BENEFITS: The Department of Fish and Wildlife issues commercial fishing licenses to about 2,000 boats. This is the major portion of exempt value. The Department of Revenue assists some counties in valuing centrally assessed companies that have ocean-going watercraft to be locally assessed. The exempt value is primarily in the coastal counties and along the Columbia River. Several watercraft construction (generally barges) and repair businesses are in operation but the value of watercraft under construction or being remodeled is unknown.

EVALUATION: Not Evaluated

2.069 WATERCRAFT CENTRALLY ASSESSED

Oregon Statute: 308.515

Sunset Date: None

Year Enacted: 1925

1997–98 Assessed Value of Property Exempted: \$4.1 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$110,000	\$20,000	\$130,000
1999–01 Revenue Impact:	\$120,000	\$20,000	\$140,000

DESCRIPTION: 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 other 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, even if a certificate fee is paid.

Interstate ferries also are exempt.

PURPOSE: The exemption is probably an attempt to relate the taxable value to value attributable to use in Oregon.

WHO BENEFITS: Two centrally assessed companies have exempt watercraft.

EVALUATION: Not Evaluated

2.070 NONPROFIT PUBLIC PARK USE LAND

Oregon Statute: 307.115

Sunset Date: None

Year Enacted: 1971

1997–98 Assessed Value of Property Exempted: \$4.2 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$110,000	\$20,000	\$130,000
1999–01 Revenue Impact:	\$120,000	\$20,000	\$140,000

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: There currently are 18 properties that were exempt under this provision, 12 in Multnomah County and 6 in Union County. Most of the benefit went to the property owners in Multnomah County.

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 which 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 which contribute to the public good by non-government entities. *[Evaluated by the Parks and Recreation Department.]*

2.071 OPEN SPACE LAND

Oregon Statute: 308.765

Sunset Date: None

Year Enacted: 1971

1997–98 Assessed Value of Property Exempted: \$14.9 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$300,000	\$60,000	\$360,000
1999–01 Revenue Impact:	\$330,000	\$60,000	\$390,000

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 difference between assessed value in an alternative use and specially assessed value is exempt. 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 which, 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 eight 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 308.770).

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: Assessors report 360 open space properties, many of which are golf courses. When appraising open space land the assessor cannot consider what the property might be worth if used for some purpose other than its current use. For example, in appraising a golf course in an urban area the assessor cannot value the land by looking at the value of surrounding land used for home sites. The course must be appraised as a golf course (its current use), not as home sites (its highest and best use). One way to do that would be to look at sales of other golf courses. Another might be to examine the income earned from the course.

EVALUATION: This exemption appears to achieve its purpose. The exemption encourages the preservation of open space and park land. Little information exists which 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 which contribute to the public good by non-government entities. *[Evaluated by the Parks and Recreation Department.]*

2.072 HISTORIC PROPERTY

Oregon Statute: 358.505

Sunset Date: 7-1-02

Year Enacted: 1975

1997–98 Assessed Value of Property Exempted: \$292.6 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$7,600,000	\$1,400,000	\$9,000,000
1999–01 Revenue Impact:	\$8,400,000	\$1,600,000	\$10,000,000

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. Beginning in 1996–97, business property can qualify for a second 15-year exemption if a renovation plan is accepted for seismic upgrade, energy conservation, or disability access.

For tax year 1994–95 and before, historic property qualified for exemption if (a) the real property was currently listed in the National Register of Historic Places, (b) the owner filed an application with the State Historic Preservation Officer and (c) the State Historic Preservation Officer approved the application. 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.

Beginning in 1996–97, the program for new participants is limited to properties requiring rehabilitation as opposed to normal maintenance. New applicants must file a preservation plan with the State Historic Preservation Officer describing proposed rehabilitation, in addition to the requirements listed above.

The preservation plan must be carried out for the property to continue to qualify. Properties already in the program before 1995–96 are not required to have a preservation plan.

If the historic property is disqualified, the tax savings from having a frozen value must be repaid. The additional tax 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, no additional tax or penalty is charged.

- PURPOSE:** As stated in statute, the exemption is to “maintain, preserve and rehabilitate properties of Oregon historical significance” (ORS 358.475).
- WHO BENEFITS:** About 1600 historic properties qualify for the exemption. Frozen value is about 60 percent commercial (including multi-family residential) and 40 percent single family residential property. Qualified properties are in almost every county but are concentrated in Multnomah County, where nearly three-quarters of the exempt value resides.
- EVALUATION:** This expenditure has been very successful in achieving its purpose, but the substantial reduction in property taxes caused by Measures 5 and 50 have reduced the incentive for taxpayers to participate in the program.

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. Despite this success, there are many potential recipients who will not utilize the benefit, particularly in areas of the state with flat economies. Mostly, this is due to the fact that the effectiveness of the incentive has been greatly reduced by Ballot Measures 5 and 50. Under Measure 5, consequent reductions in property tax rates meant an additional percentage reduction in the potential tax savings that would accrue to a property owner. In some areas, the negative impact of that measure was partially offset by the high inflation rate of robust 1990's valuation increases.

As a result of Measure 50, we anticipate that specially-assessed property owners will see potential further reductions in savings since taxable assessed values are no longer 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 will likely be reduced. Potential savings are also likely to be reduced since improvements classified as minor construction will not change a property's assessed value. In addition, because of 1995 legislative changes requiring a commitment to a specific time-framed list of rehabilitation work items, it is now possible that rehabilitation expenditures will exceed more frequently the potential tax savings over the 15 year benefit period.

As a result of both ballot measures, applications for Special Assessment have declined for the past two years. The State Historic Preservation Office received only 42 applications in tax year 1997–98, representing the third lowest number of applicants since the program's inception. In the long run, the effect of both tax law changes could be a decrease in both residential and commercial rehabilitation efforts and also an increase in demolition requests for income-producing properties.

Given the administrative costs versus the anticipated tax savings, it could be said that the program in its current form no longer provides an adequate state incentive for assisting owners of National Register properties in preserving and rehabilitating them in the public

interest, particularly on the residential side. Many states are now enacting investment tax credit programs for residential and commercial property that are based on successful federal models for income-producing property. Such a program in Oregon would impact the General Fund instead of local property tax revenues. *[Evaluated by the Parks and Recreation Department.]*

2.073 NONPROFIT WATER ASSOCIATIONS

Oregon Statute: 307.210

Sunset Date: None

Year Enacted: Pre-1953

1997–98 Assessed Value of Property Exempted: \$11.9 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$240,000	\$40,000	\$280,000
1999–01 Revenue Impact:	\$250,000	\$50,000	\$300,000

DESCRIPTION: All water system property of mutual or cooperative water associations is exempt from property taxation if:

- the association is nonprofit;
- the sole purpose of the association is to distribute water to its members for domestic use or irrigation;
- no more than 15 percent of the members use the water for private commercial purposes; and
- no more than 25 percent of the water is used for private commercial purposes.

Eligible associations must be certified by the Department of Revenue (ORS 307.240).

PURPOSE: The exemption is probably to encourage central water supplies and to treat privately owned water supply systems the same as publicly owned water systems.

WHO BENEFITS: About 400 water associations are exempt.

EVALUATION: Not Evaluated

2.074 NONPROFIT ELECTRICAL DISTRIBUTION ASSOCIATIONS

Oregon Statute: 308.805

Sunset Date: None

Year Enacted: Pre-1953

1997–98 Assessed Value of Property Exempted: \$287.8 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$5,800,000	\$1,100,000	\$6,900,000
1999–01 Revenue Impact:	\$6,100,000	\$1,100,000	\$7,200,000

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) an in-lieu-of property tax at four 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.

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

WHO BENEFITS: Eighteen cooperatives scattered around the state are exempt. Theoretically, the benefits of this exemption would flow through to the members of the cooperative in the form of lower electric rates; in theory, it might permit otherwise unprofitable service area to receive electric service. As the school rate limit fully phases in some cooperatives may start paying property taxes as the lesser amount and not be exempt.

IN LIEU: The four percent in lieu tax on gross revenue was less than property taxes for all cooperatives in 1995, and the gross revenue tax raised revenue of \$2.6 million. Proceeds are distributed to the counties in proportion to the system’s wire miles in each county. Within each county, 67.7 percent goes to the county and 33.3 percent to the County School Fund.

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, so the Public Utility Commission does not have any financial or other information about these companies.

Eighteen of nineteen electric cooperatives in the state qualify for the exemption. Because they are exempt, their distribution lines need not be assessed for property tax purposes, resulting in savings for the state. Imposing 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.]*

2.075 NONPROFIT TELEPHONE ASSOCIATIONS

Oregon Statute: 307.220

Sunset Date: None

Year Enacted: Pre-1953

1997–98 Assessed Value of Property Exempted: Negligible

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: All telephone system property except land and buildings of a mutual or cooperative telephone association are 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.

PURPOSE: The exemption is probably to encourage telephone service in rural areas.

WHO BENEFITS: Direct recipients of the tax expenditure are the members of the nonprofit association. Only eight nonprofit associations qualified for the exemption in 1995–96 and no associations qualified in 1997–98.

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 1997–98; 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.]*

2.076 PRIVATE SERVICE TELEPHONE EQUIPMENT

Oregon Statute: 307.230

Sunset Date: None

Year Enacted: Pre-1953

1997–98 Assessed Value of Property Exempted: Negligible

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: Any telephone property (not land) 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 \$1500. Property includes improvements, fixtures, equipment and supplies used for the construction, maintenance and operation of the individual's telephone system.

PURPOSE: The exemption is probably to help individuals in remote areas connect to a telephone system.

WHO BENEFITS: Direct recipients of the tax expenditure are persons who install telephone communication systems which serve only property owned or operated by that person. It is unknown whether any taxpayers currently qualify for the exemption. Since it is more likely that a telephone system's value is over the \$1,500 cap, there would likely be few beneficiaries.

EVALUATION: This provision does not appear to be achieving its purpose. No specific information exists that would allow a thorough evaluation of this exemption, but 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. The Public Utility Commission recommends elimination of this tax exemption. [*Evaluated by the Public Utility Commission.*]

2.077 RAILROAD WAY USED FOR ALTERNATIVE TRANSPORT

Oregon Statute: 307.205

Sunset Date: None

Year Enacted: 1977

1997–98 Assessed Value of Property Exempted: \$0

	Loss	Shift	Total
1997–99 Revenue Impact:	\$0	\$0	\$0
1999–01 Revenue Impact:	\$0	\$0	\$0

DESCRIPTION: Real property owned by a railroad is exempt from local property taxation 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 abandoned right-of-way to be used for such things as public light-rail systems or bicycle paths.

Property Tax

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

2.078 RAILROAD RIGHT OF WAY IN WATER DISTRICT

Oregon Statute: 264.110
Sunset Date: None
Year Enacted: 1943

1997-98 Assessed Value of Property Exempted: \$37.2 Million

	Loss	Shift	Total
1997-99 Revenue Impact:	\$30,000	\$70,000	\$100,000
1999-01 Revenue Impact:	\$30,000	\$70,000	\$100,000

DESCRIPTION: Railroad right of way, improvements, or rolling stock are exempt from property tax imposed by a water supply district. Water supply districts can levy up to one-fourth of one percent on taxable property for its operating purposes plus a levy for bonds. When calculating the rate, railroad property must be excluded unless the railroad expressly consents to its inclusion.

PURPOSE: The purpose is probably 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: About 64 water supply districts exist in 19 counties, but the number with railroad property in the district is unknown.

EVALUATION: Not Evaluated

2.079 RAILROAD WAY IN HIGHWAY LIGHTING DISTRICT

Oregon Statute: 372.190
Sunset Date: None
Year Enacted: Pre-1953

1997-98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997-99 Revenue Impact:			Not Available
1999-01 Revenue Impact:			Not Available

DESCRIPTION: Railroad rights of way are exempt from property taxes imposed by a highway lighting district unless the right of way is at a grade crossing. Highway means any public road or street. A highway lighting district can levy on any reasonable basis but the assessment cannot exceed one dollar per front foot of property abutting a lighted highway. The one dollar limit can be exceeded for initial construction and installation costs.

PURPOSE: The purpose is probably 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: Lighting districts impose a special assessment rather than a tax levy.

EVALUATION: Not Evaluated

2.080 RAILROAD RIGHT OF WAY IN RURAL FIRE DISTRICT

Oregon Statute: 478.010 (2)(d)

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: \$133 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$380,000	\$20,000	\$400,000
1999–01 Revenue Impact:	\$480,000	\$20,000	\$500,000

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. A rural fire protection district has a rate limit of 1.25 percent for bonds, but no limit for operating levies. (Chapter 667, 1969)

PURPOSE: Unknown.

WHO BENEFITS: There are 265 rural fire districts but the number with railroad property is unknown.

EVALUATION: Not Evaluated

2.081 MOTOR VEHICLES AND TRAILERS

Oregon Statute: 803.585

Sunset Date: None

Year Enacted: 1919

1997–98 Assessed Value of Property Exempted: \$15.0 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$390,000,000	\$73,000,000	\$463,000,000
1999–01 Revenue Impact:	\$430,000,000	\$80,000,000	\$510,000,000

DESCRIPTION: Generally, vehicles pay registration fees and 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.

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 other than recreation (ORS 308.880). No registration is needed in this case.

There are exceptions to vehicles being exempt. Many fixed load vehicles are fully taxable. Generally, these vehicles are not designed or used primarily to transport people or property over public roads. The definition in ORS 801.285 is difficult to apply in some cases so the statute lists 64 specific types of fixed load vehicles (cement spreaders, scoopmobiles, backhoes, etc.). In addition, the statute lists five fixed load vehicles that are exempt, including self-propelled mobile cranes.

Manufactured structures are also taxable. Like fixed load vehicles, they are not used primarily to transport people or property over public roads.

PURPOSE: To tax motor vehicles based on their share of the cost of maintaining a transportation system. This also avoids administrative problems dealing with very mobile property that could easily be moved out of state on assessment day in order to avoid taxation.

WHO BENEFITS: In 1997 there were about 2.8 million registered cars and pickups and about 0.6 million other registered vehicles and trailers in Oregon.

Article IX, Section 3a of the Constitution dedicates taxes on motor vehicles to roads. This restriction would remain, even if motor vehicles were subject to property taxes. Since some local taxing districts are not involved with road construction or maintenance, they could not use the property tax revenues from this source.

IN LIEU: The registration fee for cars and pickups is \$30 per biennium; motorcycles is \$9. 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 \$111 million for cars and pickups and \$48 million for all other vehicles in the 1999–01 biennium. 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.*]

2.082 AIRCRAFT

Oregon Statutes: 308.558 and 308.565

Sunset Date: None

Year Enacted: 1987

1997–98 Assessed Value of Property Exempted: \$206.5 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$5,400,000	\$1,000,000	\$6,400,000
1999–01 Revenue Impact:	\$5,900,000	\$1,100,000	\$7,000,000

DESCRIPTION: Generally, aircraft are exempt from property taxation, but pay registration fees to the Oregon Department of Transportation (ORS 837.040–.045). Aircraft owned by air transportation companies (commercial airlines) which 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 their business in Oregon.

PURPOSE: To tax aircraft based on their share of the cost of maintaining aircraft facilities and services. It also avoids administrative problems dealing with a very mobile property, that could easily be moved out of state on assessment day in order to avoid taxation.

WHO BENEFITS: The Aeronautics Division registers about 4,200 aircraft that are exempt from property tax. In addition, a few air transportation companies own aircraft under 75,000 pounds that are 40 percent exempt.

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 \$524,000 in the 1999–01 biennium.

EVALUATION: This expenditure achieves its purpose. The user fee principle noted for motor vehicles (2.081) 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 Transportation.]*

2.083 ODOT LAND UNDER USE PERMIT

Oregon Statute: 307.110 (3)(c)

Sunset Date: None

Year Enacted: 1981

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	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: The exemption allows ODOT to permit the use of small, uneconomic real property parcels where the benefit derived is equal to or greater than the expected revenue if it were to be leased or rented. By permitting this use, ODOT saves maintenance and weed control costs. Parcels with marginal value under a lease or rental agreement would otherwise require administrative costs on the part of the state and counties for the assessment and payment of property taxes that would exceed revenue generated.

WHO BENEFITS: ODOT has about 340 active permits that provide approximately \$17,000 in annual administrative fees. This permit system relieves ODOT of the maintenance responsibility, and eliminates the need for county governments to assess property that would in many cases raise very little revenue.

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

2.084 INTANGIBLE PERSONAL PROPERTY

Oregon Statute: 307.030

Sunset Date: None

Year Enacted: 1935

1997–98 Assessed Value of Property Exempted: \$248.3 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$6,466,000,000	\$1,203,000,000	\$7,669,000,000
1999–01 Revenue Impact:	\$7,137,000,000	\$1,328,000,000	\$8,465,000,000

DESCRIPTION: Intangible personal property is exempt from local property taxation. ORS 307.020 defines intangible personal property to include (a) financial property such as interest-bearing accounts, stocks, and bonds; (b) business records in various media forms; and (c) business intangibles like goodwill, patents, trademarks, and copyrights. Business intangibles of centrally-assessed utilities such as communications, energy, railroads, and airlines are included in the taxable value of these companies because of the unitary method by which such utilities are appraised.

PURPOSE: The exemption avoids administrative problems and avoids the inequities that would arise from low compliance.

Intangibles are very mobile and easily concealed. Assessors could not easily identify intangibles without information from financial institutions. A taxpayer could avoid the tax by moving intangibles out of state, converting to tax exempt bonds, or simply not reporting.

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 the past two 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.*]

2.085 PERSONAL PROPERTY FOR PERSONAL USE

Oregon Statute: 307.190

Sunset Date: None

Year Enacted: 1854

1997–98 Assessed Value of Property Exempted: \$13.7 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$356,000,000	\$66,000,000	\$422,000,000
1999–01 Revenue Impact:	\$393,000,000	\$73,000,000	\$466,000,000

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

The exemption does not apply to any property:

- 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
- that is a floating home, boathouse, or manufactured structure.

Property Tax

PURPOSE: The exemption facilitates administration by eliminating the tax on numerous items troublesome to value. As the variety and amount of personal property increased over time, identifying and valuing the property became an increasingly difficult job.

WHO BENEFITS: The exemption benefits all households. Those households with more personal property receive a proportionately greater benefit.

EVALUATION: This exemption achieves its purpose of avoiding the administrative difficulties of valuing the personal property of individuals. The exemption also creates, however, 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.*]

2.086 BEVERAGE CONTAINERS REQUIRING DEPOSIT

Oregon Statute: 307.402

Sunset Date: None

Year Enacted: 1983

1997–98 Assessed Value of Property Exempted: \$4.0 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$100,000	\$20,000	\$120,000
1999–01 Revenue Impact:	\$110,000	\$20,000	\$130,000

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. Value will vary somewhat by type of container and size. The estimate assumes inventory at bottlers, distributors, and retail stores to be about one month of sales.

PURPOSE: The purpose of the exemption is to avoid the difficulty of assigning a value to this property, which is constantly changing as the containers are redeemed by purchases, collected by retailers, stored by distributors, then recycled.

WHO BENEFITS: Distributors of beverages sold in 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.

2.087 STATE AND LOCAL PROPERTY

Oregon Statute: 307.090

Sunset Date: None

Year Enacted: 1854

1997–98 Assessed Value of Property Exempted: \$21.0 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$541,000,000	\$101,000,000	\$642,000,000
1999–01 Revenue Impact:	\$574,000,000	\$107,000,000	\$681,000,000

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 forest land, 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 (2.004),
- Higher Education Parking Space (2.005),
- Docks and Airports Leased from Port District (2.016),
- Leased Publicly-Owned Shipyard Property (2.017),
- Fairground Leased Storage Space (2.024),
- Leased Public Farming and Grazing Land (2.045),
- Oyster Growing on State Land (2.047),
- State and Local Standing Timber Under Contract (2.053),
- Leased State Land Board Land (2.065), and
- ODOT Land Under Use Permit (2.083).

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

WHO BENEFITS: This provision's primary effect is to transfer tax burdens from one group of taxpayers to another. In general, state income taxpayers will benefit from lower income taxes, but property taxpayers in local jurisdictions with lots of state-owned property will pay higher local property taxes.

Property Tax

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–.115),
- Common School Fund Lands (ORS 327.410–.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.*]

2.088 BEACH LANDS

Oregon Statute: 307.450

Sunset Date: None

Year Enacted: 1969

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:			Not Available
1999–01 Revenue Impact:			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.(Chapter 601, 1969).

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: 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 the 76 miles the state owns.

EVALUATION: Privately owned beach lands are typically portions of privately owned lots that include both beach and non-beach 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 non-beach portions of ocean-front lots, so the value of the beach portion is, in effect, taxed indirectly. [*Evaluated by the Department of Revenue.*]

2.089 PUBLIC WAYS

Oregon Statute: 307.200

Sunset Date: None

Year Enacted: 1895

1997–98 Assessed Value of Property Exempted: \$16.3 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$420,000,000	\$78,000,000	\$498,000,000
1999–01 Revenue Impact:	\$445,000,000	\$83,000,000	\$528,000,000

DESCRIPTION: All dedicated streets, alleys, and county roads are exempt from local property taxation if used for transportation. About 84,000 miles of public highways, roads, and streets exist in the state. This converts to roughly 354,000 acres. Approximately 87 percent of the acreage is rural land. The value of the land itself varies widely, generally being of much higher value in urban areas than in rural areas. Most of the exempt value is, however, the value of the road surface itself, not the land under it.

PURPOSE: The exemption is a clarification of the exemptions for State and Local Property (2.087) and Federal Property (2.098).

WHO BENEFITS: It is not clear who benefits. Because these roads are owned by federal, state, and local governments, taxation would result in both higher costs and higher revenues for the government entities. This would result in higher taxes for some taxpayers and lower taxes for others, but identifying the winners and losers would be very difficult.

EVALUATION: The exemption of public ways is an extension of the general exemption of government-owned property and, therefore, is based on the same rationale: that governments should not tax other levels of government. While many economists argue that the failure of governments to tax other governments in exchange for services provided can slow economic growth, it is unlikely that the failure to tax the value of public ways has much effect. *[Evaluated by the Department of Revenue.]*

2.090 TRIBAL LAND BEING PLACED IN U.S. TRUST

Oregon Statute: 307.180

Sunset Date: 7-1-02

Year Enacted: 1993

1997–98 Assessed Value of Property Exempted: \$500,000

	Loss	Shift	Total
1997–99 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000
1999–01 Revenue Impact:	Less than \$50,000	Less than \$50,000	Less than \$50,000

DESCRIPTION: Land acquired by an Indian tribe is exempt from local 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.

Property Tax

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: In 1994, a few properties were exempt in four counties. Some of these exempt properties will be placed in trust before the sunset. Other properties will likely become exempt before the sunset.

EVALUATION: Not Evaluated

2.091 EXEMPT LEASE FROM TAXABLE OWNER

Oregon Statute: 307.112

Sunset Date: None

Year Enacted: 1977

1997-98 Assessed Value of Property Exempted: *

	Loss	Shift	Total
1997-99 Revenue Impact:			*
1999-01 Revenue Impact:			*

* Included in various other categories of exempt property.

DESCRIPTION: Property that is leased to a qualified exempt organization or local government, other than the state of Oregon or federal government, from an otherwise taxable owner is exempt from local property taxation. Eligible organizations are literary, benevolent, charitable, scientific and religious organizations, private schools, day cares and housing authorities.

To qualify, (1) the property must be used for a qualifying purpose, and (2) it must be expressly agreed in the lease or lease-purchase agreement that the rent has been established to reflect the exemption, and (3) the rent charged must be below market rent.

PURPOSE: The exemption gives leased property used for an exempt purpose the same status as property owned by the lessee.

WHO BENEFITS: Exempt organizations and local governments, but it is difficult to identify who and where they are. The Department of Revenue advises counties to include the value of exempt leased property in the same category as the lessees' owned property. How much leased value is included with that owned is unknown. Multnomah County identifies about \$115 million in value leased by exempt organizations from taxable owners.

EVALUATION: The evaluations for the various exemptions that are included in this category are presented separately elsewhere.

2.092 EXEMPT LEASE FROM EXEMPT OWNER

Oregon Statute: 307.166

Sunset Date: None

Year Enacted: 1973

1997–98 Assessed Value of Property Exempted: *

	Loss	Shift	Total
1997–99 Revenue Impact:			*
1999–01 Revenue Impact:			*

* Included in various other categories of exempt property.

DESCRIPTION: Property that is leased or rented to a qualified exempt organization or public body from an owner who is also a qualified exempt organization or public body is exempt from property tax.

To qualify (1) the property must be used for a qualifying purpose, and (2) the rent charged must not exceed the cost of repairs, maintenance, amortization and upkeep.

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

PURPOSE: The exemption gives leased property used for an exempt purpose the same status as property owned by the lessee.

WHO BENEFITS: Exempt organizations, but it is difficult to identify who and where they are. The Department of Revenue advises counties to include the value of exempt leased property in the same category as the lessees' owned property. How much leased value is included with that owned is unknown. Multnomah County identifies about \$30 million in this category.

EVALUATION: The evaluations for the various exemptions that are included in this category are presented separately elsewhere.

2.093 DESTROYED PROPERTY

Oregon Statute: 308.425

Sunset Date: None

Year Enacted: 1971

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:			Not Available
1999–01 Revenue Impact:			Not Available

DESCRIPTION: 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 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 the property is damaged. The percentage is the ratio of the value after damage to the value before damage.

Property Tax

This is not an exemption but a reduction in tax equivalent to a reduced value after the assessment date. An application must be made to receive the proration. Relief cannot be granted for a property when the person seeking relief is convicted of arson for the same property.

PURPOSE: The initial purpose was probably to grant tax relief to those with a total or partial loss of use of the property due to fire or other natural causes. The proration approach passed in 1991 is to comply with 1990 Ballot Measure 5 which requires the tax to not exceed a limit based on the minimum value during the tax year.

WHO BENEFITS: No data are available, but the value of reduced taxes is probably small.

EVALUATION: This provision is not an exemption, but a method for adjusting a property's assessed value to reflect loss in value from partial or complete destruction. [*Evaluated by the Department of Revenue.*]

2.094 CHARITABLE, LITERARY, AND SCIENTIFIC

Oregon Statute: 307.130

Sunset Date: None

Year Enacted: 1854

1997–98 Assessed Value of Property Exempted: \$1.5 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$38,100,000	\$7,100,000	\$45,200,000
1999–01 Revenue Impact:	\$41,200,000	\$7,700,000	\$48,900,000

DESCRIPTION: Property owned or being purchased by literary, benevolent, charitable organization or scientific institutions is exempt from local property taxation. To qualify the organization or institution must (1) be incorporated and organized nonprofit, (2) provide a charitable gift to the public without expectation of payment, and (3) occupy and use the property in a manner that furthers the organization's charitable purpose. Sheltered 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 2,700 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

2.095 FRATERNAL ORGANIZATIONS

Oregon Statute: 307.136

Sunset Date: None

Year Enacted: 1961

1997–98 Assessed Value of Property Exempted: \$200.2 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$5,200,000	\$1,000,000	\$6,200,000
1999–01 Revenue Impact:	\$5,600,000	\$1,000,000	\$6,600,000

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

To qualify, a fraternal organization must: (1) be organized as a nonprofit; (2) be established under the lodge system with ritualistic form of work and representative form of government; (3) support some benevolent or charitable activity; (4) not distribute any income to its officers, members, or employees except for reasonable compensation for services; and (5) not be a college fraternity or sorority.

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

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

WHO BENEFITS: About 700 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

2.096 RELIGIOUS ORGANIZATIONS

Oregon Statute: 307.140

Sunset Date: None

Year Enacted: 1854

1997–98 Assessed Value of Property Exempted: \$2.0 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$53,100,000	\$9,900,000	\$63,000,000
1999–01 Revenue Impact:	\$58,600,000	\$10,900,000	\$69,500,000

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.

Property Tax

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 and restrict the financial burdens imposed by taxation.

WHO BENEFITS: Approximately 6,900 religious properties are exempt. The number of properties with religious structures rather than schools, cemeteries, etc. is unknown.

EVALUATION: Not Evaluated

2.097 CEMETERIES, BURIAL GROUNDS, AND MAUSOLEUMS

Oregon Statute: 307.150

Sunset Date: None

Year Enacted: 1854

1997–98 Assessed Value of Property Exempted: \$145.6 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$3,800,000	\$700,000	\$4,500,000
1999–01 Revenue Impact:	\$4,200,000	\$800,000	\$5,000,000

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.

If use of the exempt property changes to a non-exempt use, then additional taxes equal to the tax benefit received for the years exempt (up to 10) is due.

This statute exempts both non-profit and for-profit cemetery and crematory associations, as well as family burial grounds. Cemeteries owned by cities, counties, or districts are exempt under ORS 307.090 (2.087 State and Local Property), while cemeteries owned and maintained by religious organizations fall under ORS 307.140 (2.096 Religious Organizations).

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

WHO BENEFITS: Assessors report about 1,000 exempt properties. Over half of the exempt value is located in Multnomah County.

EVALUATION: Not Evaluated

2.098 FEDERAL PROPERTY

Oregon Statute: 307.040

Sunset Date: None

Year Enacted: 1848

1997–98 Assessed Value of Property Exempted: \$91.7 Billion

	Loss	Shift	Total
1997–99 Revenue Impact:	\$2,363,000,000	\$440,000,000	\$2,803,000,000
1999–01 Revenue Impact:	\$2,506,000,000	\$466,000,000	\$2,972,000,000

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 taxable.

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

- Recreation Facility on Federal Land (2.021),
- Summer Homes on Federal Land (2.034),
- Leased Federal Grazing Land (2.046)
- Federal Standing Timber Under Contract (2.060), and
- Mining Claims on Federal Land (2.100).

PURPOSE: To clarify and 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. Over 90 percent of the value is standing timber.

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

Federal Oregon and California Railroad (O & C) Lands,
 Federal Forest Land,
 Payments In-Lieu-Of Taxes Act of 1976,
 Coos Bay Wagon Road Lands,
 Public Land Resource Sales,
 BLM Grazing Lands,
 U.S. Mineral Leases.

EVALUATION: Not Evaluated

2.099 INDIAN PROPERTY ON RESERVATION

Oregon Statute: 307.180

Sunset Date: None

Year Enacted: 1854

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:			Not Available
1999–01 Revenue Impact:			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 (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: The exemption is probably to comply with the status of Indians under federal law before statehood.

WHO BENEFITS: Seven reservations are located in 12 counties. Reservation acreage is 842,555 acres. Three tribes do not currently have reservations.

EVALUATION: Not Evaluated

2.100 MINING CLAIMS ON FEDERAL LAND

Oregon Statute: 307.080

Sunset Date: None

Year Enacted: 1889

1997–98 Assessed Value of Property Exempted: Not Available

	Loss	Shift	Total
1997–99 Revenue Impact:			Not Available
1999–01 Revenue Impact:			Not Available

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: The exemption is probably to recognize that the federal government is still the owner of the land.

WHO BENEFITS: About 17,000 mining claims exist on Bureau of Land Management land. Claims can overlap so the total acreage is unknown. The value of mining claims is also unknown.

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 rooted in the fact that mining claims are intangible in nature, and intangible property is typically exempt from local property taxation. *[Evaluated by the Department of Revenue.]*

2.101 AMTRAK PASSENGER RAILROAD

Oregon Statute: 308.515

Sunset Date: None

Year Enacted: 1983

1997–98 Assessed Value of Property Exempted: \$6.7 Million

	Loss	Shift	Total
1997–99 Revenue Impact:	\$170,000	\$30,000	\$200,000
1999–01 Revenue Impact:	\$180,000	\$30,000	\$210,000

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) is uncertain. Oregon's value would likely depend on an allocation formula using factors like share of passenger miles.

PURPOSE: To comply with federal law.

WHO BENEFITS: Most likely Amtrak passengers, who pay lower fares because Amtrak's costs are lower.

EVALUATION: Not Evaluated