

## Taxes look different here

*Oregonian, The (Portland, OR) - September 1, 2005*

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- Edition: Sunrise
- Section: inPortland Portland Zoner
- Page: 10
- Readability: 10-12 grade level (Lexile: 1190)

SUMMARY: Unheard of state limits and raging home appreciation have unleashed property taxes from a home's market value. The gap is going to get worse -- and more unfair.

When John Allan bought his first home in April for \$149,950, he noticed something odd about his property taxes.

His one-story house is small and plain, covering 1,300 square feet. It sits out on Southeast 125th Avenue, just south of Division. "It's not the greatest neighborhood," Allan says, "it's really not."

But his home's annual taxes total \$2,359.

Across town, in inner Northeast, Megan Twilegar noticed something funny about her taxes, too. In November, she bought a 2,800-square-foot Craftsman in the gentrifying Eliot neighborhood for \$293,377 -- nearly double Allan's purchase price.

But her property tax tab comes to just \$1,362 -- 42 percent less than Allan's.

Like thousands of other Portland home buyers, Allan and Twilegar have stepped through the looking glass into Multnomah County's Alice-in-Wonderland property tax system, where a combination of an unorthodox 1996 statewide measure, torrid appreciation in select neighborhoods and dumb luck are conspiring to unhinge residential property taxes from reality.

Today, home buyers in broad swaths of North and inner Northeast pay big bucks for houses but little in taxes. Meanwhile, buyers east of 82nd Avenue cough up \$2,000 to \$3,000 a year in property taxes though they can afford only modest homes.

To understand why, let's slide down the rabbit hole to a fateful year: 1995.

Back then, John Allan's future home sat on a street full of single-family houses on large, tree-filled lots. Meth hadn't taken hold in the Powellhurst-Gilbert neighborhood. And infill development was more theory than practice.

Meanwhile, home prices started to climb in Northeast Portland's Eliot neighborhood, where Megan Twilegar would one day buy a 1909 home with beamed ceilings. But the city assessor wasn't scheduled to visit until 1996. And violent gangs and drug dealers were still the No. 1 concern.

Fast forward to today.

Eliot is one of Portland's hottest neighborhoods, with violent crime dropping by half in the past decade. Powellhurst-Gilbert has seen meth use and property crime climb -- and home prices in the hardest-hit pockets slow to a comparative crawl.

Twilegar's next-door neighbors bought their house for \$382,000 -- two years ago. Allan's house is now boxed in by a 1999 suburban-style duplex on one side and a 1997 duplex on the other.

But something else happened between 1995 and today: Bill Sizemore, a tax reduction activist from Clackamas County and eventual candidate for governor, decided it was time to stop property taxes from climbing as fast as home prices.

Sizemore's Measure 47, passed in 1996, pegged a home's assessed value back to the level in 1995 -- that fateful year -- then cut that value by 10 percent, then capped its growth at 3 percent a year.

Unlike Proposition 13, California's trailblazing 1978 measure, Sizemore's initiative didn't call for a reassessment when a home sold. Neither did Measure 50, a subsequent mop-up measure drafted by the Legislature and adopted by voters in 1997.

The net result: Portland, with the rest of the state, remains suspended in the 1995 ether when it comes to property taxes.

For buyers whose houses rose in value mostly after 1995, including the creative set now flocking to North and inner Northeast, that's a windfall. For others, including the lunch-bucket crowd in outer Southeast, it's not.

Overall, outer east and some areas of outer Southwest have the highest taxes in the city compared to home values.

Next in line: pricey neighborhoods that were in vogue before 1995 but have appreciated at a strong clip since then, including the West Hills, Alameda, Laurelhurst, Irvington and Eastmoreland. Relatively low taxes are sprinkled in pockets throughout the city but mostly come in North and inner Northeast, where the 1996 reassessment fell by the wayside with the adoption of Measure 50.

Today, Sizemore correctly argues that disparities existed under the old system. There's no question the new system is far more stable and predictable. And by disconnecting taxes from a home's market value, it protects the elderly and others who live in insta-hip neighborhoods from seeing their property taxes take flight.

"Our goal was to give each taxpayer protection he could count on year after year," Sizemore said in an e-mail, later adding: "It bothers me that property owners can pay off their mortgage and then have to pay four or five hundred dollars a month (or even a lot more) to stay in their own home."

On the flip side, Steven Sheffrin, director of the Center for State and Local Taxation at the University of California at Davis, says he knows of no other state where property values float free of home price reality forever more.

Oregon's system "is the most ridiculous thing I've ever heard of," says Sheffrin, also Davis' social science dean. "It permanently locks in inequalities, it doesn't reflect at all the market value and over time it can get persistently worse."

Other states cap the total taxes government receives, Sheffrin says, allowing the taxable value of individual homes to adjust to the market. Oregon's system doesn't account for those changing conditions, he says, creating "pretty random" winners and losers. And it penalizes homeowners in high-tax areas when they go to sell their home, with the higher taxes often driving prices down.

The disparities probably will grow.

Twilegar's house is assessed at \$61,190 today versus \$108,900 for Allan's home, roughly a \$47,000 spread. In 10 years, unless values change because of major remodels, the differential will grow to \$64,000 at the allowed 3 percent growth rate. In 20 years, it'll be \$86,000.

Those who'd like to see a change shouldn't hold their breath.

Despite its own set of inequities, California's Prop. 13 withstood legal challenge all the way through the U.S. Supreme Court. Generally, all property tax limits need is some rational basis to pass legal muster -- such as a need for lower taxes, says Harvey Rogers, a partner with the Portland office of Preston Gates & Ellis.

Measures 47 and 50 amended Oregon's Constitution. So eliminating the system requires a highly unlikely scenario; namely voters passing another statewide measure, this time to raise their property taxes.

A middle-of-the-road alternative would be converting to a Prop. 13-style system, with houses automatically reappraising on sale.

That approach has some political appeal. Among other benefits,

it would nail the much-maligned out-of-state investors and erstwhile Californians helping to drive up Oregon's housing prices. Total rates still would be capped by 1990's Measure 5, Oregon's first successful property tax measure.

Tim Nesbitt, head of Oregon's AFL-CIO, would love to see property taxes increase to benefit public employees. But he says real estate agents would be among many lining up to oppose that option.

Nesbitt thinks there's a legal argument to be made that homeowners in high-tax areas get shortchanged. "I'm just waiting for the day when an enterprising attorney realizes there's a class-action lawsuit here," he says.

Then there's a final, and perhaps most likely, scenario: Reducing property taxes more to ensure that everyone really gets a break.

Sizemore likes the idea. A potential measure to cap taxes at \$1,500 a year doesn't poll well. But a measure cutting property taxes by 20 percent does. "I am considering that one," he says.

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ILLUSTRATION: Color photos by MICHAEL LLOYD / The Oregonian

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ILLUSTRATION: Sidebar text -- PORTLAND'S PROPERTY TAX RATIO BY ZIP CODE; SUPER LUCKY - VICKI PHILLIPS; PROP, POP

## QUIZ!

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