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COMPRESSION

Compression is an Oregon tax system issue that that reduces the amount of taxes that can be collected in a given year if the collection amount is going to exceed the pre-set maximum established by Measure 5 and adjusted by Measure 50. The calculations, causes, and effects of compression are extremely complicated. If real market values and assessed values are converging, urban renewal can cause increases in compression. However, urban renewal can also be a tool to help facilitate growth that ultimately reduces compression. Urban renewal can also decrease compression in the schools category when school taxes are re-classified as general government taxes under urban renewal.

The recession of the 2000's, by decreasing the real market value of many properties, has caused compression losses to increase throughout Oregon. Compression occurs when tax rates exceed tax limitations and assessed values and real market values inch closer together. Measure 5 as adjusted by Measure 50 imposed tax rate limits of $10 per $1,000 of real market value for General Government categories and $5 per $1,000 for Education categories. Urban Renewal is calculated in the General Government category. This classification reallocates the Education portion of taxes within an urban renewal district from Education and moves it into the General Government category. Urban renewal taxes divided from levies to repay general obligation bonds that are exempt from Measure 5 are also included in the General Government category. This has the effect of increasing the General Government tax rate, but reducing the Education and Exempt tax rate.

The Measure 5 tax rate limits are exceeded in many areas in the state, but this did not cause significant reductions in taxes collected (compression) until the difference between assessed values and real market values decreased. Compression occurs first on local option levies, then on permanent rate levies. While compression is a concern for all taxing jurisdictions, it is especially a concern for special districts that have local option levies, as those are compressed before any other levies are compressed.

An example of how compression works is shown below. In the first scenario a house with a real market value of $200,000 and assessed value of $190,000 experiences compression while a house with a real market value of $250,000 and assessed value of $190,000 does not experience compression.

1. Scenario I

Assessed Value (**AV**) $190,000	Taxes levied
Real Market Value (**RMV**) $200,000	
Actual tax rates:	
General Government taxes ($12.50 per $1,000 of ***AV***)	$2,375
Education taxes ($6.50 per $1,000 of ***AV***)	$1,235
Tax rate limits:	
General Government tax limit ($10 per $1,000 of ***RMV***)	$2,000
Education tax limit ($5 per $1,000 of ***RMV***)	$1,000
Compression General Government (M-5 loss)	$(375)
Compression Education (M-5 loss)	$(235)

In this scenario, both the general government and education taxes have to be compressed. In this situation, taxing jurisdictions are scheduled to collect $610 ($375 + $235) over the established taxation limit. To ensure the limit is not exceeded, the actual taxes collected are compressed down to the maximum $2,000 and $1,000 limits, and the taxing jurisdictions lose out on $610 of revenue.

If the real market value is higher (i.e. assessed value is a lower percentage of the real market value), compression is less likely to occur. In the scenario below, compression does not occur as the real market value of $250,000 allows enough capacity to levy the full amount of the taxes for tax rates in excess of the Measure 5 limits. This example is still based on a $190,000 assessed value.

2. Scenario II

Assessed Value (**AV**) $190,000	Taxes levied
Real Market Value (**RMV**) $250,000	
Actual tax rates:	
General Government taxes ($12.50 per $1,000 of ***AV***)	$2,375
Education taxes ($6.50 per $1,000 of ***AV***)	$1,235
Tax rate limits	
General Government tax limit ($10 per $1,000 of ***RMV***)	$2,500
Education tax limit ($5 per $1,000 of ***RMV***)	$1,250
Compression General Government (M-5 loss)	$0
Compression Education (M-5 loss)	$0

As shown above, there are two variables to watch when considering compression, the tax rates and the relationship of the RMV to AV of properties. The effect of the recession can be seen in the two scenarios above. The property in these scenarios provides $3,610 to local taxing jurisdictions when its real market value is $250,000, however, when that value drops to $200,000 (similar to what many properties have done throughout the recession), the taxes on the property are compressed down to $3,000, and the taxing jurisdictions are faced with declining revenues. Also, new local option levies can exacerbate the situation when they are passed, as they increase the tax rates, but not the tax limits.

The only ways to reduce compression are to reduce tax rates, to increase the real market values of properties, or raise the taxing limitations, that would take a state-wide vote. However, there are not that many plan areas around the state are within areas where the total general government tax rate is under $10 and therefore there is no compression at all. According to data from the Department of Revenue, of the 102 plan areas that received division of tax revenue in 2011-12, 22 suffered no compression loss and another 31 had compression losses of under $100. For the special levies, out of a state-wide total of 22, 10 had no loss and 5 had losses of under $100. According to Tom Linhares, Executive Director of the Multnomah County Tax Supervising Commission, The City of Portland has 92% of all of the compression losses statewide.

Urban renewal can help eliminate or offset the effects of compression in two ways, by raising the real market values of properties and by encouraging new development. Increasing real market values are dependent on a strong real estate market, which typically follows a strong economy. New development is an obvious benefit to taxing jurisdictions as it provides another source upon which to levy taxes. New development is also beneficial to school districts that are using the construction excise tax. It is the desire of many special districts and urban renewal agencies that the impact of urban renewal help facilitate growth in the community that will increase its economic vitality and both increase the real market values of properties and add new development to the tax rolls.

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