



## Understanding State Question 669 and How It Affects Growth in Taxable Property Value

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Changes in Oklahoma's current property tax system are being proposed with a new state question, "State Question 669" (SQ669), that will be on the primary election ballot March 12, 1996. The purpose of this report is to provide some additional information that may help citizens better understand the proposed amendment. It is not the purpose of this report to say that the proposed amendment is good or bad.<sup>1</sup> Nor is the purpose to estimate dollar impacts on jurisdictions receiving ad valorem tax dollars; such an assessment requires gathering much more data than is currently available.

Initiative Petition 362 - State Question 669 - often called the Property Owners Protection Act, is a proposed addition to the Oklahoma Constitution. SQ669 "would amend the Oklahoma Constitution to both limit the dollar amount of ad valorem taxes payable on real property, and change the manner in which such taxes could be increased" according to the Oklahoma Supreme Court. The fact that this proposal would fundamentally change the property tax system with respect to real property is not debatable. What is being debated in public is whether or not the proposed changes are desirable.

This report has four basic parts. First, a brief review of the current ad valorem tax system is provided. Second, the provisions of SQ669 are briefly outlined. Third, several of the issues being debated and the questions being asked are listed. These help set the context. Fourth, county data is presented that will help the reader get a better understanding of how the current and proposed systems of real property taxation are affected by economic trends. More specifically, the county level data will help define both the

immediate and longer term impacts of SQ669. This knowledge, in turn, provides the reader with some of the information necessary to assess the effect on taxpayers and on local entities receiving property tax dollars. Public entities receiving property tax dollars are county government, common schools, vo-techs, libraries, county health departments, solid waste districts, emergency medical districts, county industrial development districts, and junior colleges. Cities occasionally use a property tax to pay for bonded indebtedness. Some of these entities, such as county government, rely heavily upon the property tax while others receive a smaller share of their budget through ad valorem taxes.

### Current Ad Valorem System

Property taxes are computed using three pieces of information: (1) the value of the property, (2) the assessment ratio, and (3) the local mill levy. "Value" is defined as

**Real property** is defined as land and all buildings, structures, and other improvements or permanent fixtures added to the land.

**Personal property** may be defined as tangible, moveable property, including household property, business equipment and goods for sale, livestock, dormant and moveable stock of nurseries, and improvements on leased land that do not become part of the realty.

**Public service property** may be generally defined as railroad, airline, and public service corporations such as transmission and transportation companies including gas, electric power companies, telephone, and pipeline companies, waterworks and waterpower companies.

<sup>1</sup> Oklahoma Cooperative Extension Service realizes that any information published regarding a controversial public policy issue may be criticized and perhaps judged to be biased by those strongly supporting or opposing the policy. However, it is our responsibility to develop the best information possible and to present it in as unbiased a manner as possible in order to help citizens make informed decisions.

the fair cash value (except in the case of agricultural land). Fair cash value can be defined as the value in exchange, the transaction price, the market value, or the value that a reasonable buyer and reasonable seller would agree to in a competitive, fair market situation. (Agricultural land is assessed based on its "use value," defined by the legislature as valuation based 75% on the rental value of the land and 25% on the sales value - fair cash value.) The "local" assessment ratio for real property is required by the State Board of Equalization to be in the 11% to 14% range. The average across Oklahoma is about 12%. The public service property assessment ratio is currently 12% for railroads and airlines and 22.85% for all others. The local mill levy is the summation of levies for the various taxing jurisdictions in which one lives. Some operating levies, such as 10 mills for county government and 39 mills for common schools, are consistent across the state. They are the maximum rates allowed by the Constitution and have not changed in several decades. County, city, school, junior college, and vo-tech building fund levies depend upon a vote of the people and vary from county to county, school to school, and city to city. The same variation is found with respect to sinking fund levies that are created when the voters approve bonded indebtedness for a particular jurisdiction.

Once the value and assessment ratio are determined by the assessor in accordance with law and the total mill levy is added-up according to the constitution, statutes, and votes of the people, then the amount of tax due is a straightforward process. The "assessed valuation" of property equals the fair cash value multiplied by the assessment ratio. The assessed valuation multiplied by the total mill levy and divided by 1,000 (one mill means \$1 tax per \$1,000 assessed valuation) is the dollar amount of taxes due. For example:

- Suppose the fair cash value of a business building is \$60,000.
- Suppose the assessment ratio is 0.12 or 12%.
- Suppose the total mill levy is 75 mills.
- Assessed Valuation = \$60,000 X 0.12 = \$7,200
- Dollar Amount of Tax = \$7,200 X 75 / 1,000 = \$540

This is the essence of our current ad valorem tax system.

SQ669 would amend valuation of real property and focus on changes in dollar amount of tax. It would not change the fair cash value (market value) standard for personal property or public service property. SQ669 replaces use of "fair cash (market) value" with other standards depending upon various conditions listed in the "Provisions of SQ669" section of this report. SQ669 also freezes the assessment ratio and initially sets the dollar amount of tax at the 1993 level.

### Provisions of SQ669

- I. The amount of property tax levied on real property shall not exceed the amount levied in 1993 unless:

- A. Voters of a taxing jurisdiction adopt an additional millage (such as school building fund); or
  - B. Sixty percent of voters, only during a General Election, authorize an increase of up to three percent; or
  - C. There is a conveyance or transfer of ownership (a sale), outside of immediate relations. Following transfer, the new tax levy will be based on the sale price; or
  - D. Permanent improvements (new construction, expansion, or renovation) are made upon real property. The "capitalized book value" of the improvements will be added to the original property's value. Taxes will be levied on this amount; or
  - E. Upon termination of exempt status, the property will be assessed "in the manner provided by law."
- II. The use classification of a property shall continue as before (as defined in Section 8 of Article X of the Oklahoma Constitution). For example, agricultural land will continue to be assessed according to its "use value" rather than being assessed based on market value.
  - III. Prior to an election to raise property taxes, all registered voters must be notified by mail. The notice will be mailed 15 to 25 days before the election date. "NOTICE OF ELECTION TO INCREASE TAXES" shall be printed on the front of the envelope. Election and taxing jurisdiction financial information shall be included in the notice.
  - IV. Property taxes may not increase by any other method. Increases in valuation (due to property appreciation, for example), increases in assessment ratio, and such provisions authorized by existing law are prohibited.
  - V. Ad valorem taxes may still be decreased.
  - VI. Taxpayers have the right to sue and taxpayers who prevail will be reimbursed for all reasonable costs including attorney fees.
  - VII. This section will become effective January 1 following the year of its adoption.

### Issues and Questions Being Debated

There are many issues in dispute regarding SQ669. In order to raise the level of awareness, a partial list of these issues and questions being posed by proponents and opponents are listed below. No attempt is made to address them.

- Does SQ669 return power to the local people and, if so, does it do so in a desirable way?
- Should voters approve all property tax increases?
- SQ669 will result in similar properties, perhaps even neighboring properties, paying different amounts of property tax. Is it fair or unfair for adjacent properties to have different taxable value?
- Are entities, such as common schools who issued bonds for new school buildings after 1993 but prior to SQ669 taking effect, in danger of defaulting on their debt?
- Is it good public policy that family members escape increases in taxes when they convey property among themselves while others pay taxes based on sales price?
- Is it better to assess property at sale price as opposed to assessor's determination of "market value?" Is there any difference? Can sale price be manipulated by clever buyers and sellers to minimize property taxes and, if so, is this acceptable?
- Is it okay to assess improvements or additions to real property based on the concept of cost or "capitalized book value," as opposed to, market value?
- Is it fair to require 60% majority to decide future tax increases? Is this provision needed to help guard against unwanted increases of taxes?
- Is it fair to limit growth of taxes on real property but not on personal property and public service properties?
- No tax system is perfect. Is this proposed change better than the current system or is there a better alternative?
- Are property taxes unfair in principle? Do property tax increases due to increases in property value constitute a tax on unrealized gains?
- Do we need fundamental property tax reform? Are sales and income taxes more fair?
- Is the public sector (county government, common schools, vo-techs, city/county libraries, or other entities receiving ad valorem dollars) out of control? Are these entities unresponsive to the needs of the public? Are they over-funded?
- Do people on fixed incomes, particularly senior adults, need protection from rising property valuations?
- Is more money for public services (such as local government and education services) a more virtuous end than more money in the hands of citizens? Do public institutions deserve any more protection from inflation than citizens?

### Reduced Growth in Property Taxes?

The Oklahoma Supreme Court stated that SQ669 "would amend the Oklahoma Constitution to both limit the

dollar amount of ad valorem taxes payable on real property and change the manner in which taxes are increased." One item that is not in dispute is that SQ669, in all likelihood, would limit the growth in real property taxable value as compared to our current system. First, SQ669 reduces real property taxes for many people by returning the taxes to the 1993 level. Second, according to the first section of SQ669, there would be only five ways for property taxes on real property to increase above the 1993 level. The last two ways have to do with permanent improvements and termination of exempt status, respectively. These would not necessarily reduce the growth of taxes. The first two methods of increasing taxes require votes of the people. The first of these two (A) is the same as in current law. The second method (B) allows taxpayers the right to vote up to a 3% increase in taxes. This provision has the potential to limit growth in property taxes relative to our current system because (1) voters may not approve general increases in taxes and (2) real property values may appreciate at more than a 3% rate. The third provision for increases in taxes on real property states that the valuation (hence the tax) on a property will be increased when the property is sold at a higher price than the fair cash value on the tax roll in 1993 (except if sold between immediate family members). Taxable value of a property would no longer rise due to appreciation (that is, due to general growth in the value of real property), except when that property sells or when the voters pass an increase within the limits set by SQ669.

The current system is one of reassessment at least every four years based on "market value." Growth in taxable value is due to a combination of (1) appreciation in the market value of existing property and (2) the value of new construction. SQ669 does not limit growth due to new construction but it does eliminate increases due to appreciation in market value and it rolls back the taxes on existing properties. Furthermore, SQ669 says that only those properties that sell (beyond the 2nd degree of affinity or consanguinity) would have a change in value on the tax roll. Therefore, in any county, school district, or other taxing jurisdiction that is experiencing appreciation in property values, the proposed constitutional change will reduce the rate of growth of the tax roll value, thus reducing the rate of growth of potential ad valorem taxes. Another way of saying this is that increases in value (other than new construction) will only be reflected on the tax roll when individual properties are sold. So, the overall growth of taxable value is dependent upon the number of real estate sales (and the amount of new construction). The second factor directly affecting the rate of growth in property tax dollars is the annual increase of up to 3% that can be voted by the citizens. (Voters may also approve bonded indebtedness and building fund levies but these taxes are for capital improvements, not operations. For this reason, this report largely ignores sinking fund and building levies.) If

prices rise (inflation) at a rate exceeding 3% per year, SQ669 prevents citizens from authorizing property tax revenues for operations to increase at the same pace as the rising cost of services. Thus, growth in taxes on real property would be reduced unless increases due to sales and new construction are enough to make up the difference.

The following tables and discussion will:

- (1) identify those counties in which the rollback to 1993 assessments will be largest;
- (2) identify counties in which real property growth has occurred in recent years and is likely to continue to occur; and
- (3) suggest ways in which people can grasp some potential impacts of SQ669 on their community and themselves.

In short, it will be shown that several counties have had significant growth in real property value in recent years and are likely to continue the growth. How much tax roll growth is attributable to new construction, as opposed to appreciation, will probably vary from place to place and from one time period to the next. In the following analysis, no attempt is made to separate these two sources of growth. Most likely, communities experiencing significant growth are experiencing both new construction and price appreciation. SQ669 will roll back growth in tax revenue since 1993 and it will reduce the rate of future growth in tax revenue because it rolls back taxes (hence, values) on existing properties and limits potential annual tax increases. Using this information, it is the reader — the citizen — who must answer the questions:

- (1) Is the rollback to 1993 tax level good or bad and for whom?
- (2) Is a reduction in the rate of growth a good or bad idea for the reader and reader's community?
- (3) Is the 3% per year growth provision based on approval of 60% of the voters good or bad for your community?

Again, the goal of this report is to provide the reader with some useful information to help answer these questions.

To accomplish the above stated goals, net real property valuations for each county for years 1980, 1988, 1993, and 1995\* are presented in Table 1. "Net Real" is simply the real property valuation of the county minus the amount of homestead exemptions. "Net Real" is the taxable value against which millage rates are applied. In addition to the net real valuations, Table 1 shows the percent change from 1980, 1988, and 1993, respectively, to 1995. First, the total percent change, then the average annual change, are presented for each of the three time periods. Rates of

change vary from county to county and from time period to time period depending upon the economic conditions affecting each county at different times. The advantage of presenting these statistics for three time periods - fifteen, seven, and two years - is that it is easier to see whether a given county is generally growing, declining, or remaining relatively unchanged. For example, a county with relatively low or negative percent change in all three periods is likely to be a county that will continue such a trend. Likewise, a county with relatively large percent changes during each of the three periods is more likely to continue to grow in taxable value. Those with close to zero change over the three periods are likely to continue, relatively unchanged unless some significant economic stimulus takes place.

Several useful summary statistics are found at the bottom of Table 1. The first and second statewide statistics are the average and median values. The average annual percent change from 1980 to 1995 was 4.32% while the median change was 4.09%. The average annual change from 1988 to 1995 was smaller, 1.87%. Then from 1993 to 1995 the average change increased to 2.34%. These results are exactly what one would expect. In the early 1980s the economy of many Oklahoma counties and the state as a whole was growing rapidly. (Inflation was also relatively large.) During the latter 1980s and early 1990s there was a real slump in the economy and, consequently, in real estate values. However, during the last few years, economic conditions in many areas have improved and it is reflected in the increase in average annual change from 1993 to 1995.

First and third quartiles are useful in showing a county's position relative to other counties. Quartiles divide each column of numbers into fourths. The first quartile shows the number below which are found the smallest one-fourth. The "median" is the mid-point or dividing point for the second quartile. The third quartile shows the number above which are found the largest one-fourth. For example, the 1980 to 1995 first quartile percent change is 48.76%. This means that one-fourth of the seventy-seven Oklahoma counties (nineteen counties) grew less than 48.76% in net real property value over those fifteen years. The median total percent change from 1988 to 1995 was 10.29%. Thus, half the counties grew more and half grew less than 10.29% in net real property. Lastly, from 1993 to 1995 one-fourth of the counties grew more than 7.42%. These nineteen fastest growing counties have the potential for the largest tax decreases if SQ669 passes because their growth since the proposed roll-back year (1993) is greatest. Some specific examples might be helpful.

Woods County's history, as portrayed in Table 1, is one of relatively slow growth. Net valuation of real property grew 44.18% from 1980 - 1995, a 2.47% annual average. Because these numbers almost match the First Quartile figures for this time period, it can be said that Woods

\* Net real property valuations for 1995 are based either: (1) on county abstracts of the tax roll (that may not be final) or (2) on the valuations presented in the county budget - "Estimate of Needs and Financial Statement" - (that should be final) if the budget was complete and available at the time of this writing. 1980, 1988, and 1993 data are from county budgets filed with the State Auditor and Inspector.

**Table 1. Net Real Property Valuation by County, 1980, 1988, 1993, and 1995 plus Total Percent Change and Average Annual Percent Change for Time Periods 1980 - 1995, 1988 - 1995, and 1993 - 1995.**

COUNTY	Year = 1980		Year = 1988		Year = 1993		Year = 1995		'80-'95		'88-'95		'93-'95	
	NET REAL	PERCENT CHANGE	NET REAL	PERCENT CHANGE	NET REAL	PERCENT CHANGE	NET REAL	PERCENT CHANGE	PERCENT CHANGE	Annual % Change	PERCENT CHANGE	Annual % Change	PERCENT CHANGE	Annual % Change
Adair	8,125,923	232.56%	18,033,283	232.56%	25,156,996	232.56%	27,023,723	232.56%	232.56%	8.34%	49.85%	5.95%	7.42%	3.64%
Alfalfa	23,633,376	15.05%	26,182,305	15.05%	26,831,182	15.05%	27,189,866	15.05%	15.05%	0.94%	3.85%	0.54%	1.34%	0.67%
Atoka	11,310,370	69.18%	13,049,445	69.18%	18,559,827	69.18%	19,135,223	69.18%	69.18%	3.57%	46.64%	5.62%	3.10%	1.54%
Beaver	16,429,196	59.66%	22,742,454	59.66%	25,410,910	59.66%	26,230,144	59.66%	59.66%	3.17%	15.34%	2.06%	3.22%	1.60%
Beckham	20,148,907	81.91%	39,785,861	81.91%	35,811,239	81.91%	36,653,366	81.91%	81.91%	4.07%	-7.87%	-1.16%	2.35%	1.17%
Blaine	23,335,187	13.39%	31,583,137	13.39%	26,153,177	13.39%	26,458,625	13.39%	13.39%	0.84%	-16.23%	-2.50%	1.17%	0.58%
Bryan	23,994,783	124.53%	40,183,470	124.53%	48,357,407	124.53%	53,874,510	124.53%	124.53%	5.54%	34.07%	4.28%	11.41%	5.55%
Caddo	29,898,775	60.94%	49,713,010	60.94%	48,475,047	60.94%	48,120,340	60.94%	60.94%	3.22%	-3.20%	-0.46%	-0.73%	-0.37%
Canadian	97,431,330	116.11%	192,350,834	116.11%	191,159,564	116.11%	210,557,093	116.11%	116.11%	5.27%	9.47%	1.30%	10.15%	4.95%
Carter	40,738,076	137.40%	86,266,831	137.40%	83,080,343	137.40%	96,712,509	137.40%	137.40%	5.93%	12.11%	1.65%	16.41%	7.89%
Cherokee	19,049,435	192.06%	45,832,785	192.06%	50,959,925	192.06%	55,634,869	192.06%	192.06%	7.41%	21.39%	2.81%	9.17%	4.49%
Choctaw	8,660,610	113.08%	15,098,302	113.08%	17,738,811	113.08%	18,453,858	113.08%	113.08%	5.17%	22.22%	2.91%	4.03%	2.00%
Cimarron	14,079,515	18.50%	16,470,224	18.50%	16,818,570	18.50%	16,683,732	18.50%	18.50%	1.14%	1.30%	0.18%	-0.80%	-0.40%
Cleveland	165,344,485	182.84%	426,005,295	182.84%	431,023,515	182.84%	467,662,810	182.84%	182.84%	7.18%	9.78%	1.34%	8.50%	4.16%
Coal	6,463,934	28.53%	7,517,802	28.53%	7,867,717	28.53%	8,308,355	28.53%	28.53%	1.69%	10.52%	1.44%	5.60%	2.76%
Comanche	86,288,140	181.76%	189,627,300	181.76%	232,168,696	181.76%	243,128,783	181.76%	181.76%	7.15%	28.21%	3.61%	4.72%	2.33%
Cotton	10,895,265	43.62%	13,585,395	43.62%	15,157,035	43.62%	15,648,207	43.62%	43.62%	2.44%	15.18%	2.04%	3.24%	1.61%
Craig	17,755,415	81.53%	29,554,828	81.53%	30,908,333	81.53%	32,231,926	81.53%	81.53%	4.06%	9.06%	1.25%	4.28%	2.12%
Creek	53,126,749	107.53%	95,001,308	107.53%	103,598,945	107.53%	110,253,709	107.53%	107.53%	4.99%	16.05%	2.15%	6.42%	3.16%
Custer	29,748,020	87.84%	54,428,347	87.84%	54,496,490	87.84%	55,877,325	87.84%	87.84%	4.29%	2.66%	0.38%	2.53%	1.26%
Delaware	27,589,550	268.16%	87,023,603	268.16%	92,521,460	268.16%	101,573,539	268.16%	268.16%	9.08%	16.72%	2.23%	9.78%	4.78%
Dewey	11,529,266	29.27%	14,956,370	29.27%	14,699,826	29.27%	14,903,569	29.27%	29.27%	1.73%	-0.35%	-0.05%	1.39%	0.69%
Ellis	11,503,664	35.17%	14,412,499	35.17%	14,698,550	35.17%	15,549,952	35.17%	35.17%	2.03%	7.89%	1.09%	5.79%	2.86%
Garfield	76,522,040	80.09%	141,613,235	80.09%	134,394,265	80.09%	137,807,920	80.09%	80.09%	4.00%	-2.69%	-0.39%	2.54%	1.26%
Garvin	24,419,902	99.60%	45,093,230	99.60%	48,401,918	99.60%	48,743,274	99.60%	99.60%	4.72%	8.09%	1.12%	0.71%	0.35%
Grady	38,224,351	106.52%	64,094,115	106.52%	72,670,148	106.52%	78,940,692	106.52%	106.52%	4.95%	23.16%	3.02%	8.63%	4.23%
Grant	24,234,670	38.17%	34,358,621	38.17%	33,062,890	38.17%	33,485,555	38.17%	38.17%	2.18%	-2.54%	-0.37%	1.28%	0.64%
Greer	11,445,574	37.09%	15,717,144	37.09%	15,631,294	37.09%	15,691,174	37.09%	37.09%	2.13%	-0.17%	-0.02%	0.38%	0.19%
Harmon	8,026,805	36.72%	11,137,685	36.72%	10,827,025	36.72%	10,974,525	36.72%	36.72%	2.11%	-1.46%	-0.21%	1.36%	0.68%
Harper	7,688,951	82.47%	13,613,728	82.47%	14,140,651	82.47%	14,030,276	82.47%	82.47%	4.09%	3.06%	0.43%	-0.78%	-0.39%

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COUNTY	Year = 1980		Year = 1988		Year = 1993		Year = 1995		'80-'95		'88-'95		'93-'95	
	NET REAL	NET REAL	NET REAL	NET REAL	NET REAL	NET REAL	NET REAL	NET REAL	PERCENT CHANGE	Annual % Change	PERCENT CHANGE	Annual % Change	PERCENT CHANGE	Annual % Change
Haskell	6,921,320	11,228,880	13,595,575	14,904,235	14,904,235	17,883,802	17,883,802	115.34%	5.25%	32.73%	4.13%	9.63%	4.70%	
Hughes	10,236,215	15,373,185	16,272,473	17,883,802	17,883,802	64,186,405	64,186,405	74.71%	3.79%	16.33%	2.18%	9.90%	4.83%	
Jackson	24,464,175	45,898,443	59,752,541	64,186,405	64,186,405	15,212,323	15,212,323	162.37%	6.64%	39.84%	4.91%	7.42%	3.64%	
Jefferson	10,978,172	13,982,674	15,037,939	15,212,323	15,212,323	19,057,388	19,057,388	38.57%	2.20%	8.79%	1.21%	1.16%	0.58%	
Johnston	9,539,408	16,375,048	18,144,220	19,057,388	19,057,388	119,624,840	119,624,840	99.78%	4.72%	16.38%	2.19%	5.03%	2.49%	
Kay	68,678,265	111,234,895	117,292,475	119,624,840	119,624,840	41,475,084	41,475,084	74.18%	3.77%	7.54%	1.04%	1.99%	0.99%	
Kingfisher	27,362,715	38,989,635	38,710,680	41,475,084	41,475,084	27,056,521	27,056,521	51.58%	2.81%	6.37%	0.89%	7.14%	3.51%	
Kiowa	20,028,814	25,951,736	27,034,627	27,056,521	27,056,521	10,882,060	10,882,060	35.09%	2.03%	4.26%	0.60%	0.08%	0.04%	
Latimer	5,852,419	9,527,460	10,897,573	10,882,060	10,882,060	98,215,109	98,215,109	85.94%	4.22%	14.22%	1.92%	-0.14%	-0.07%	
LeFlore	20,924,330	37,716,592	87,981,187	98,215,109	98,215,109	46,801,030	46,801,030	369.38%	10.86%	160.40%	14.65%	11.63%	5.66%	
Lincoln	21,892,567	40,399,585	42,712,275	46,801,030	46,801,030	65,614,293	65,614,293	113.78%	5.20%	15.85%	2.12%	9.57%	4.68%	
Logan	27,879,300	64,200,979	61,345,788	65,614,293	65,614,293	15,761,794	15,761,794	135.35%	5.87%	2.20%	0.31%	6.96%	3.42%	
Love	8,236,582	14,264,101	14,919,845	15,761,794	15,761,794	21,410,054	21,410,054	91.36%	4.42%	10.50%	1.44%	5.64%	2.78%	
Major	18,187,770	19,412,965	20,985,915	21,410,054	21,410,054	27,122,248	27,122,248	17.72%	1.09%	10.29%	1.41%	2.02%	1.01%	
Marshall	9,529,380	21,267,155	25,509,998	27,122,248	27,122,248	69,369,122	69,369,122	184.62%	7.22%	27.53%	3.54%	6.32%	3.11%	
Mayes	30,806,925	57,351,611	63,160,754	69,369,122	69,369,122	46,536,017	46,536,017	125.17%	5.56%	20.95%	2.75%	9.83%	4.80%	
McClain	18,358,930	37,723,535	42,125,900	46,536,017	46,536,017	50,684,074	50,684,074	153.48%	6.40%	23.36%	3.04%	10.47%	5.10%	
McCurtain	17,683,931	31,071,718	48,444,354	50,684,074	50,684,074	36,514,254	36,514,254	186.61%	7.27%	63.12%	7.24%	4.62%	2.29%	
McIntosh	12,826,442	27,904,872	34,229,217	36,514,254	36,514,254	17,903,050	17,903,050	184.68%	7.22%	30.85%	3.92%	6.68%	3.28%	
Murray	11,784,555	16,308,120	17,236,670	17,903,050	17,903,050	122,510,300	122,510,300	51.92%	2.83%	9.78%	1.34%	3.87%	1.91%	
Muskogee	56,239,001	114,134,282	115,282,461	122,510,300	122,510,300	26,343,273	26,343,273	117.84%	5.33%	7.34%	1.02%	6.27%	3.09%	
Noble	18,482,365	25,209,645	25,274,530	26,343,273	26,343,273	18,181,382	18,181,382	42.53%	2.39%	4.50%	0.63%	4.23%	2.09%	
Nowata	13,626,705	18,451,630	18,088,136	18,181,382	18,181,382	15,947,272	15,947,272	33.42%	1.94%	-1.46%	-0.21%	0.52%	0.26%	
Okfuskee	10,015,805	13,473,985	15,256,789	15,947,272	15,947,272	1,639,823,896	1,639,823,896	59.22%	3.15%	18.36%	2.44%	4.53%	2.24%	
Oklahoma	812,029,065	1,608,384,235	1,467,390,358	1,639,823,896	1,639,823,896	55,059,061	55,059,061	101.94%	4.80%	1.95%	0.28%	11.75%	5.71%	
Okmulgee	27,242,587	51,038,650	52,607,962	55,059,061	55,059,061	86,523,548	86,523,548	102.11%	4.80%	7.88%	1.09%	4.66%	2.30%	
Osage	48,870,138	81,097,680	84,401,525	86,523,548	86,523,548	48,369,583	48,369,583	77.05%	3.88%	6.69%	0.93%	2.51%	1.25%	
Ottawa	29,093,015	40,227,823	47,365,383	48,369,583	48,369,583	31,025,919	31,025,919	66.26%	3.45%	20.24%	2.67%	2.12%	1.05%	
Pawnee	16,800,335	32,194,545	31,933,816	31,025,919	31,025,919	131,398,955	131,398,955	84.67%	4.17%	-3.63%	-0.53%	-2.84%	-1.43%	
Payne	65,926,090	112,600,991	118,501,619	131,398,955	131,398,955	63,659,714	63,659,714	99.31%	4.71%	16.69%	2.23%	10.88%	5.30%	
Pittsburg	31,758,515	50,797,504	60,013,934	63,659,714	63,659,714			100.45%	4.75%	25.32%	3.28%	6.07%	2.99%	

**Table 1. Net Real Property Valuation by County, 1980, 1988, 1993, and 1995 plus Total Percent Change and Average Annual Percent Change for Time Periods 1980 - 1995, 1988 - 1995, and 1993 - 1995 continued.**

COUNTY	Year = 1980		Year = 1988		Year = 1993		Year = 1995		'80-'95		'88-'95		'93-'95	
	NET REAL	NET REAL	NET REAL	NET REAL	NET REAL	NET REAL	NET REAL	NET REAL	PERCENT CHANGE	Annual % Change	PERCENT CHANGE	Annual % Change	PERCENT CHANGE	Annual % Change
Pontotoc	31,207,134	47,087,090	51,849,525	55,518,800	77.90%	3.92%	17.91%	2.38%	98.88%	4.69%	4.74%	0.66%	7.08%	3.48%
Pottawatomie	49,273,873	93,559,618	94,581,050	97,995,219	78.30%	3.93%	27.05%	3.48%	48.76%	2.68%	-0.84%	-0.12%	3.61%	1.79%
Pushmataha	9,673,296	13,574,986	16,502,659	17,247,042	192.57%	7.42%	26.95%	3.47%	111.85%	5.13%	7.68%	1.06%	4.51%	2.23%
Roger Mills	8,681,895	13,024,555	12,717,735	12,915,098	253.17%	8.78%	35.63%	4.45%	114.34%	5.21%	10.72%	1.47%	1.55%	0.77%
Rogers	52,818,555	121,729,047	142,656,913	154,530,916	77.20%	3.89%	10.95%	1.50%	11.48%	0.73%	-5.52%	-0.81%	8.32%	4.08%
Seminole	14,875,330	29,264,585	30,723,430	31,513,466	67.16%	3.48%	10.92%	1.49%	154.93%	6.44%	34.02%	4.27%	2.57%	1.28%
Sequoyah	14,180,267	36,923,485	47,085,831	50,080,096	65.16%	3.40%	8.81%	1.21%	114.34%	5.21%	10.72%	1.47%	6.36%	3.13%
Stephens	38,488,455	74,506,825	79,945,540	82,494,640	39.20%	2.23%	4.47%	0.63%	77.20%	3.89%	10.95%	1.50%	3.19%	1.58%
Texas	32,247,430	51,502,188	54,364,852	57,143,827	44.18%	2.47%	5.96%	0.83%	11.48%	0.73%	-5.52%	-0.81%	5.11%	2.52%
Tillman	20,749,736	24,482,125	24,039,605	23,130,828	36.02%	2.07%	6.20%	0.86%	67.16%	3.48%	10.92%	1.49%	-3.78%	-1.91%
Tulsa	975,227,599	1,469,621,039	1,505,306,717	1,630,150,241	97.00%	4.32%	15.10%	1.87%	154.93%	6.44%	34.02%	4.27%	8.29%	4.06%
Wagoner	38,744,330	73,700,985	89,552,681	98,770,932	82.47%	4.09%	10.29%	2.23%	65.16%	3.40%	8.81%	1.21%	10.29%	5.02%
Washington	81,624,292	123,893,844	132,599,112	134,811,176	44.18%	2.47%	5.96%	0.83%	39.20%	2.23%	4.47%	0.63%	1.67%	0.83%
Washita	19,533,162	26,025,364	27,112,949	27,189,917	44.18%	2.47%	5.96%	0.83%	44.18%	2.47%	5.96%	0.83%	0.28%	0.14%
Woods	19,357,191	26,338,916	27,735,757	27,909,331	97.00%	4.32%	15.10%	1.87%	36.02%	2.07%	6.20%	0.86%	0.63%	0.31%
Woodward	34,097,430	43,671,130	44,990,890	46,380,635	82.47%	4.09%	10.29%	2.23%	97.00%	4.32%	15.10%	1.87%	3.09%	1.53%
Average	50,658,157	89,970,550	92,650,045	99,745,173	116.11%	5.27%	20.95%	2.75%	97.00%	4.32%	15.10%	1.87%	4.78%	2.34%
Median	20,749,736	36,923,485	38,710,680	41,475,084	82.47%	4.09%	10.29%	2.23%	82.47%	4.09%	10.29%	1.41%	4.51%	2.23%
First Quartile	11,529,266	16,470,224	18,144,220	19,057,388	48.76%	2.68%	4.47%	0.63%	48.76%	2.68%	4.47%	0.63%	1.67%	0.83%
Third Quartile	32,247,430	64,094,115	72,670,148	78,940,692	116.11%	5.27%	20.95%	2.75%	116.11%	5.27%	20.95%	2.75%	7.42%	3.64%

Source: Net real property valuations for 1995 are based either: (1) on county abstracts of the tax roll (that may not be final) or (2) on the valuations presented in the county budget - "Estimate of Needs and Financial Statement" - (that should be final) if the budget was complete and available at the time of this writing. 1980, 1988, and 1993 data are from county budgets filed with the State Auditor and Inspector.

County grew more slowly than 75% (three-fourths) of the counties. From 1988 - 1995 the Woods' valuation growth was 5.96% or 0.83% per year. This is slightly larger than the First Quartile (4.47% and 0.63%). Then from 1993 - 1995 Woods' valuation growth slowed relative to other counties. The 0.63% change (0.31% per year) for Woods is less than the 1.67% and 0.83%, respectively, for the First Quartile. In summary, Woods County's real property valuation grew, in all three time periods, at rates slower than approximately 58 of Oklahoma's 77 counties. There is no reason, given this evidence, to expect that trend to change. Therefore, the SQ669 roll-back would be relatively small (approximately 0.63%) and the slow growth trend further reduces the future impact of SQ669 on property taxes in Woods County.

Rogers County presents a very different picture. Annual growth rates for 1980 - 1995, 1988 - 1995, and 1993 - 1995 are 7.42%, 3.47%, and 4.08%, respectively (Table 1). All three of these rates exceed the Third Quartile rates, 5.27%, 2.75%, and 3.64%, respectively. So, Rogers County has consistently exceeded growth rates of more than 75% of the counties in the state. In a roll-back to 1993 from 1995, Rogers County could lose 8.32% of property tax revenues from real property. Furthermore, the prospects for continued relatively rapid growth look good, so SQ669 would have a relatively large negative impact on potential property tax revenues in the future.

Love County is an example of growth rates close to the median and average levels (Table 1). Therefore, it would tend to experience the average impact. Approximately 5.64% of real property valuation would be lost in the roll-back to 1993, then the average reduction on future growth in property valuation. Again, the actual reduction in real property tax in counties with growth in real property valuation depends on interpretation of the language in SQ669 and the relative amounts of real property sales and new construction.

Six counties experienced decreasing real property valuation from 1993 to 1995 (Table 2). Therefore, the roll-back provision to 1993 taxes called for in SQ669 would likely have little or no affect on total taxes collected in these six counties. (Since net valuations were larger in 1993, taxes may actually rise if set at 1993 levels.) However, for the remaining counties, SQ669 will cause a reduction in taxes on properties in these counties that have increased in assessed value from 1993 to 1995. The amount of reduction may be estimated by multiplying the dollar amount of growth in net real property valuation by the mill levy in the county. An appropriate question for a taxpayer to ask is, "Is it better for that money to be in my pocket or for it to be spent by the schools, vo-tech, county, and other local entities to provide public services?" The following paragraphs help address a similar question, that is, "How should public services deal with the adverse affects of inflation?"

**Table 2. Annual Average Rates of Growth in Net Real Property Valuation at the County Level over Three Time Periods, 1980 - 1995, 1988 - 1995, and 1993 - 1995.**

<i>Range</i>	<i>1980 - 1995</i>	<i>1988 - 1995</i>	<i>1993 - 1995</i>
-2.5% to 0.0%	0	12	6
0.0% to 2.5%	19	44	38
2.5% to 5.0%	33	17	26
5.0% to 7.5%	21	3	6
7.5% to 10.0%	3	0	1
10.0% to 15.0%	1	1	0

Inflation can be defined as a decrease in purchasing power due to growth in the money supply. This simply means that a dollar in 1990 could purchase more than a dollar in 1995. The price of groceries is a good example. The price of your typical bag of groceries this year is more than the price of the same bag of groceries last year and one reason is that the purchasing power of a dollar has decreased. With respect to real estate, inflation means that it takes more dollars to buy the same property than in a previous time period and that increase is not directly related to improvements on the property.

If Table 2 and Table 3 are compared, several observations can be made. From 1980 to 1995 at least 19 counties' net real valuation grew slower than prices. From 1988 to 1995, at least 56 counties' net real valuation grew slower than prices. From 1993 to 1995, about 44 counties net real valuation grew slower than prices (as measured by the Consumer Price Index). This means that public service funding provided by real property taxes has failed to keep up with inflation in many cases. SQ669 would allow a maximum annual increase of 3% per year in tax (excluding the effects of new construction and sales). Between 1980 and 1995 the annual inflation rate (Implicit Price Deflator) (Table 3) exceeded 3% ten times. However, inflation has been lower in recent years, exceeding 3% once since 1990, a 3.8% rate in 1991. By limiting growth in real property tax dollars, SQ669 prohibits this revenue stream from keeping up with rising prices when and if inflation exceeds 3% (unless ample new construction and higher priced sales occur).

**Table 3. Annual Average Rates of Growth in Prices, Measured by Two Price Indices over Three Time Periods, 1980 - 1995, 1988 - 1995, and 1993 - 1995.**

<i>Range</i>	<i>1980 - 1995</i>	<i>1988 - 1995</i>	<i>1993 - 1995</i>
Inflation			
Implicit Price Deflator	3.92%	3.01%	1.75%
Consumer Price Index	4.11%	3.61%	2.45%



When growth in price levels exceeds growth in property taxes, there are two basic alternatives for public entities: (1) find another source of funds or (2) reduce spending. Other sources of funds may be limited but many county governments have turned to a county sales tax to acquire additional revenues. Common schools have benefited from increased state funding, especially from the provisions of HB 1017. Proponents of SQ669 have said that the reduced property tax revenues to schools can be replaced by more state funding. This may be true. However, State Question 640, passed in 1992, makes it more difficult than in earlier years for the State of Oklahoma to raise additional taxes.

The second alternative, reduced spending, can have basically two consequences. First, the perceived "fat" may be cut. Cutting out what seems to be excessive, wasteful "government" or public service spending has been, and continues to be, a message from taxpayers. If money is being wasted, wiser, more productive use of tax dollars is warranted. The problem is knowing when all the waste has been cut. Similarly, it is difficult to determine how many and what kind of public services are desirable. The answer is somewhat subjective and varies from one citizen to another. Indeed, the second consequence is that desirable public services may have to be cut. SQ669 provides for a 60% majority of voters to make that decision. That is, if desirable services are not being adequately funded, the voters can authorize up to a 3% increase in real property taxes. If 3% is inadequate, other funding sources would have to be sought.

### Impact on the Individual

To this point emphasis has been placed on the impact of SQ669 on local institutions. Now let us consider the impact of SQ669 on an individual? Since a primary purpose of SQ669 is to reduce taxes on real property, the impact on virtually any owner of real property will be a reduction in property tax. This money could be put to some alternative use according to the individual's preferences. But how much will a person's real property tax be reduced? Perhaps a couple of hypothetical situations may help answer this question.

#### Hypothetical Situation One

First consider a person in a slower growth county. That is, real property valuations are increasing, on average, about 1% per year on homes and 0.3% per year on agricultural land valuation. Assume this hypothetical person owns a home in the city and a farm a few miles outside the city. Assume the homestead was valued by the assessor in 1996 at \$75,000, that it was valued in 1993 at \$72,815, that the assessment ratio was 12% both years, and that the total mill levy in the assessing jurisdiction was 80 mills. Assuming there are no bond issues, additions,

renovations, or other factors to complicate our example, the tax in 1997 would be \$21 (\$720 — \$699) less than it was in 1996. The tax in 1993 was \$699. The tax on the home in 1996 was \$720. SQ669 sets the tax at the 1993 level, so in 1997 the tax is \$699.

Assume the agricultural use value of the 160 acre pasture in 1993 was \$17,000 and in 1996 it was valued at \$17,170. Assuming the same mill levy, the 1993 tax amount was \$163, the 1996 tax amount was \$165, and the 1997 tax will be \$163, a \$2 savings over 1996.

So, in this case the person in the slower growth county pays a total of \$862 in 1997, \$23 less than was paid in 1996 or a 2.6% savings.

<i>Property</i>	<i>\$ 1993 Tax</i>	<i>\$ 1996 Tax</i>	<i>\$ 1997 Tax</i>	<i>\$ 1997 Reduction</i>
Home	699	720	699	21
Farm	163	165	163	2
Total	862	885	862	23

#### Hypothetical Situation Two

Consider a person in a faster growth county. That is, real property valuations are increasing, on average, about 3% per year on homes and 1% per year on agricultural land valuation. Assume this person owns a home in the city and a farm a few miles outside the city. Assume the homestead was valued by the assessor in 1996 at \$79,500, that it was valued in 1993 at \$72,815, that the assessment ratio was 12% both years, and that the total mill levy in the assessing jurisdiction was 80 mills. Assume there are no bond issues, additions, renovations, or other factors to complicate our example. The tax in 1997 would be \$64 (\$763 — \$699) less than it was in 1996. The tax in 1993 was \$699. The tax on the home in 1996 was \$763. SQ669 sets the tax at the 1993 level, so in 1997 the tax returns to \$699.

Assume the agricultural use value of the 160 acre farm in 1993 was \$17,000 and in 1996 it was valued at \$17,510. Assuming the same mill levy, the 1993 tax amount was \$163, the 1996 tax amount was \$168, and the 1997 tax will be \$163, a \$5 savings over 1996.

So, in this case the person in the faster growth county pays a total of \$862 in 1997, \$69 less than was paid in 1996 or a 7.4% savings.

<i>Property</i>	<i>\$ 1993 Tax</i>	<i>\$ 1996 Tax</i>	<i>\$ 1997 Tax</i>	<i>\$ 1997 Reduction</i>
Home	699	763	699	64
Farm	163	168	163	5
Total	862	931	862	69

These two hypothetical situations give an idea of the immediate tax reduction under the provisions of SQ669. If valuations are rising at a relatively slow rate, the tax reduction is relatively small. If valuations are rising at a relatively fast rate, the tax reduction is relatively large. If, by chance, an individual is in a zero growth jurisdiction, under the conditions of these scenarios, there would be no change in tax amount.

What happens to the person's taxes in 1998 and subsequent years? It depends primarily on whether the voters pass higher taxes, whether the person builds additional structures or other permanent improvements, and whether or not the person retains the same property.

## Summary

State Question 669 calls for fundamental changes in the Oklahoma property tax system. Major changes often breed major debates and conflicts. SQ669 is no exception. One effect of SQ669 is not debatable. It is clear that property taxes will be immediately reduced in most counties and future growth in property taxes will likely be reduced when compared to the current system. The statistics presented in this report identify those counties in

which reductions will be greatest and in which the reduced rate of growth will have the largest impact on property tax collections. Secondly, it is shown that inflation has exceeded property tax valuation in many counties over the last fifteen years; less so in the last few years. Thus, the provisions of SQ669 may or may not provide taxpayers the flexibility to authorize tax increases to keep pace with inflation since SQ669 limits tax increases on real property. On the other hand, lower taxes means more dollars for taxpayers to put to alternative uses. In summary, any tax structure change may have distributional effects such that some citizens benefit and others lose.

This report makes no attempt to judge whether SQ669 is good or bad for the citizens of Oklahoma. The purpose is to provide voters with a better understanding of the issues and the possible consequences.

For more information, citizens are encouraged to contact both proponents and opponents of SQ669 and listen to and read about both arguments. A careful reading of the proposed constitutional language may also be helpful. Then citizens should exercise their right to vote on March 12, 1996.



# The Oklahoma Cooperative Extension Service

## *Bringing the University to You!*

The Cooperative Extension Service is the largest, most successful informal educational organization in the world. It is a nationwide system funded and guided by a partnership of federal, state and local governments that delivers information to help people help themselves through the land-grant university system.

Extension carries out programs in the broad categories of agriculture, natural resources and environment; home economics; 4-H and other youth; and community resource development. Extension staff members live and work among the people they serve to help stimulate and educate Americans to plan ahead and cope with their problems.

Some characteristics of the Cooperative Extension system are:

- The federal, state and local governments cooperatively share in its financial support and program direction.
- It is administered by the land-grant university as designated by the state legislature through an Extension director.
- Extension programs are nonpolitical, objective and based on factual information.
- It provides practical, problem-oriented education for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.
- It utilizes research from university, government and other sources to help people make their own decisions.
- More than a million volunteers help multiply the impact of the Extension professional staff.
- It dispenses no funds to the public.
- It is not a regulatory agency, but it does inform people of regulations and of their options in meeting them.
- Local programs are developed and carried out in full recognition of national problems and goals.
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