



Current Report

Division of Agricultural Sciences and Natural Resources • Oklahoma State University

Property Tax Reform: State Questions 675 - 677

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Introduction

State questions 675, 676, and 677 propose ad valorem (property) tax reforms. Following the defeat of State Question 669, the 45th Legislature of the State of Oklahoma considered several property tax reforms, then passed House Bill 2198 containing these three proposed constitutional changes. In addition, the Legislature passed Senate Bill 681, changing the income limits for additional homestead exemptions and property tax relief.¹ Here we discuss the three state questions. First is a brief review of the current Oklahoma ad valorem tax system. Second, each of the three proposed amendments are summarized and ramifications discussed. Third, the ballot titles are presented. Last will be a summary and implications section.

Current Ad Valorem System

Property taxes are computed using three pieces of information: (1) the value of the property, (2) the assessment percentage, and (3) the local mill levy. "Value" is defined as 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 percentage for real property is required by the State Board of Equalization to be in the 11% to 14% range. The average across Oklahoma in 1995 was 11.55%. The average for personal property in 1995 was 11.93%. The public service property assessment percentage is currently 11.62% 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.

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.

Once the value and assessment percentage 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 straight forward process. The "assessed valuation" of property equals the fair cash value multiplied by the assessment percentage. 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.

¹ This law changes the income limits regarding additional homestead exemption (\$1,000 assessed value) and tax relief. The income limit for additional homestead exemption for the heads of household is raised from \$10,000 to \$20,000. The income limit for property tax relief for totally disabled or senior citizen heads of household is raised from \$10,000 to \$12,000.

For example:

Suppose the fair cash value of a business building is \$60,000.

Suppose the assessment percentage 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.

State Question 675 - Assessment Percentage Limit

The Oklahoma Constitution currently gives the State Board of Equalization the authority to set local personal property and real property assessment percentages² at any ratio up to 35%. State Question 675 (SQ 675) would change this, restricting the personal and real property assessment percentages to the current range of ratios now in effect across the State. Personal property would be assessed in the range of 10% to 15%. Real property would be assessed in the range of 11% to 13.5%. In effect, passage of this amendment would have no immediate impact since it preserves the assessment practices currently being used.

This amendment provides a new power to local voters. Beginning January 1, 1997 county voters may, by majority vote, raise their county assessment percentage by up to one percentage point (unless doing so would exceed the maximums of 15% and 13.5% described above). Such an election may be called for by county commissioners or by initiative petition of the citizens. Adoption of up to a one percentage point increase in the assessment percentage will raise property taxes (all other things equal³).

Table 1 shows the 1995 real property assessment percentage for each of Oklahoma's 77 counties. This table also indicates the potential increase in property tax on real property if voters elected to increase the assessment percentage by one percentage point. For example, Adair County assesses real property at 12% of fair cash value. Since 12% is below the 13.5% maximum allowed by SQ 675, voters may vote an increase if they so desire. If the citizens voted for a one percentage point increase to 13%, the percentage increase in assessed value is 8.33% ($1/12 = .0833$). So, if the mill levy and fair cash value of a property remains the same but the assessment percentage is raised from 12% to 13%, the taxes on that property will increase 8.33%. Table 1 also shows that in a later year the citizens may elect to move from 13% to 13.5% (the maximum). In doing so, taxes would rise 3.85% (assuming other factors remained the same). The last column of Table 1 indicates that the total possible increase in assessment percentage in Adair County is 12.5% (1.5 percentage point increase over time divided by the original 12% assessment percentage).

2 An assessment percentage is the portion of fair cash value placed on the tax roll. If a property has a fair cash value of \$100,000 and the assessment percentage is 12%, the assessed or taxable value is \$12,000.

3 "All other things equal" is a phrase used by economists when discussing the impact of an action. In this case it means that property taxes would rise assuming that fair cash value and mill rates remain the same.

Table 2 is very much like Table 1 except it applies to personal property. The 1995 personal property assessment percentage is shown for each county. In the third through the seventh columns are shown the maximum one year increases that citizens could vote on themselves. The last column, as in Table 1, shows the maximum increase in assessment percentage that could occur over time if citizens voted to move from the current level in a county to the maximum level allowed by SQ 675. For some counties, like Garfield, who are already at the maximum 15% level, there is no possibility of future increases. At the other extreme, counties, such as Jackson, that are currently at 10% could eventually move to 15%. Moving from 10% to 15% constitutes a 50% increase in assessment percentage. Many counties fall between the two extremes.

This amendment also provides that the assessment percentage may be lowered without an election (as long as the ratio does not fall below the minimum). The language does not specify how this would be done. Current law allows the county assessor to change the ratio within limits set by the State Board of Equalization. It is assumed that the assessor would retain the authority to lower ratios if SQ 675 passes.

SQ 675 contains another provision that does not directly affect the everyday citizen. It states that properties assessed by the State Board of Equalization (public service property⁴) shall be assessed at the percentage of its fair cash value at which it was assessed on January 1, 1996. Hence, the ratio is fixed for such properties at the 1996 assessment level of 11.62% for railroads and airlines and 22.85% for all others.

State Question 676 - Annual Limit on Increase in Fair Cash Value

In recent years, as county assessors have endeavored to comply with the provisions of the property tax statutes, specifically those requiring regular revaluation and visual inspection of properties, the fair cash value of some properties has greatly increased. Naturally, taxpayers find a 10%, 20%, or larger increase in a single year to be very disagreeable. Large increases sometimes result from rapidly advancing property values within a community. At other times large increases occur when a property has been undervalued (for tax purposes) and the assessor is simply bringing it up to current property value levels. Regardless of the reason, large tax increases due to large fair cash value increases are not usually welcomed by the taxpayer. State Question 676 (SQ 676) would place a limit on the annual increase in fair cash value of real property.

With few exceptions, SQ 676 would provide that the maximum increase in fair cash value on locally assessed real property would be 5%. For example, suppose the assessor appraises your business property at a fair cash value of

4 Public service property includes the property of companies such as Southwestern Bell, Public Service Company of Oklahoma, Oklahoma Natural Gas, Williams Pipelines, and OG&E Electric Services. There are many such properties whose fair cash value is estimated by the Oklahoma Tax Commission and whose assessment percentage is then determined by the State Board of Equalization.

Table 1. Real Property Assessment Percentages for 1995 and Potential Percent Change in Assessed Value Given a One Percentage Point Increase, One Period to the Next, by County

<i>County</i>	<i>1995 Ratios</i>	<i>1st Potential Increase</i>	<i>2nd Potential Increase</i>	<i>3rd Potential Increase</i>	<i>Maximum Over Time</i>
Adair	12.00%	8.33%	3.85%	0.00%	12.50%
Alfalfa	12.50%	8.00%	0.00%	0.00%	8.00%
Atoka	12.00%	8.33%	3.85%	0.00%	12.50%
Beaver	13.00%	3.85%	0.00%	0.00%	3.85%
Beckham	12.00%	8.33%	3.85%	0.00%	12.50%
Blaine	11.00%	9.09%	8.33%	3.85%	22.73%
Bryan	11.00%	9.09%	8.33%	3.85%	22.73%
Caddo	11.00%	9.09%	8.33%	3.85%	22.73%
Canadian	12.00%	8.33%	3.85%	0.00%	12.50%
Carter	12.00%	8.33%	3.85%	0.00%	12.50%
Cherokee	11.00%	9.09%	8.33%	3.85%	22.73%
Choctaw	11.00%	9.09%	8.33%	3.85%	22.73%
Cimarron	13.50%	0.00%	0.00%	0.00%	0.00%
Cleveland	12.00%	8.33%	3.85%	0.00%	12.50%
Coal	12.00%	8.33%	3.85%	0.00%	12.50%
Comanche	11.30%	8.85%	8.13%	1.50%	19.47%
Cotton	11.50%	8.70%	8.00%	0.00%	17.39%
Craig	11.50%	8.70%	8.00%	0.00%	17.39%
Creek	12.00%	8.33%	3.85%	0.00%	12.50%
Custer	11.00%	9.09%	8.33%	3.85%	22.73%
Delaware	11.50%	8.70%	8.00%	0.00%	17.39%
Dewey	11.00%	9.09%	8.33%	3.85%	22.73%
Ellis	12.00%	8.33%	3.85%	0.00%	12.50%
Garfield	12.50%	8.00%	0.00%	0.00%	8.00%
Garvin	11.00%	9.09%	8.33%	3.85%	22.73%
Grady	11.00%	9.09%	8.33%	3.85%	22.73%
Grant	12.50%	8.00%	0.00%	0.00%	8.00%
Greer	12.00%	8.33%	3.85%	0.00%	12.50%
Harmon	12.00%	8.33%	3.85%	0.00%	12.50%
Harper	12.00%	8.33%	3.85%	0.00%	12.50%
Haskell	11.00%	9.09%	8.33%	3.85%	22.73%
Hughes	11.00%	9.09%	8.33%	3.85%	22.73%
Jackson	12.00%	8.33%	3.85%	0.00%	12.50%
Jefferson	11.50%	8.70%	8.00%	0.00%	17.39%
Johnston	12.00%	8.33%	3.85%	0.00%	12.50%
Kay	11.00%	9.09%	8.33%	3.85%	22.73%
Kingfisher	11.00%	9.09%	8.33%	3.85%	22.73%
Kiowa	11.00%	9.09%	8.33%	3.85%	22.73%
Latimer	11.20%	8.93%	8.20%	2.27%	20.54%
LeFlore	11.00%	9.09%	8.33%	3.85%	22.73%
Lincoln	11.00%	9.09%	8.33%	3.85%	22.73%
Logan	12.00%	8.33%	3.85%	0.00%	12.50%
Love	12.00%	8.33%	3.85%	0.00%	12.50%
McClain	11.00%	9.09%	8.33%	3.85%	22.73%
McCurtain	11.00%	9.09%	8.33%	3.85%	22.73%
McIntosh	11.00%	9.09%	8.33%	3.85%	22.73%
Major	11.00%	9.09%	8.33%	3.85%	22.73%
Marshall	11.25%	8.89%	8.16%	1.89%	20.00%
Mayes	11.20%	8.93%	8.20%	2.27%	20.54%
Murray	11.00%	9.09%	8.33%	3.85%	22.73%
Muskogee	11.00%	9.09%	8.33%	3.85%	22.73%
Noble	12.00%	8.33%	3.85%	0.00%	12.50%
Nowata	12.00%	8.33%	3.85%	0.00%	12.50%
Okluskee	11.00%	9.09%	8.33%	3.85%	22.73%
Oklahoma	11.00%	9.09%	8.33%	3.85%	22.73%
Okmulgee	12.00%	8.33%	3.85%	0.00%	12.50%
Osage	12.00%	8.33%	3.85%	0.00%	12.50%
Ottawa	11.40%	8.77%	8.06%	0.75%	18.42%
Pawnee	12.00%	8.33%	3.85%	0.00%	12.50%
Payne	11.40%	8.77%	8.06%	0.75%	18.42%
Pittsburg	11.00%	9.09%	8.33%	3.85%	22.73%
Pontotoc	12.00%	8.33%	3.85%	0.00%	12.50%
Pottawatomie	12.00%	8.33%	3.85%	0.00%	12.50%
Pushmataha	11.00%	9.09%	8.33%	3.85%	22.73%
Roger Mills	12.00%	8.33%	3.85%	0.00%	12.50%
Rogers	11.00%	9.09%	8.33%	3.85%	22.73%
Seminole	12.00%	8.33%	3.85%	0.00%	12.50%
Sequoyah	11.00%	9.09%	8.33%	3.85%	22.73%
Stephens	11.00%	9.09%	8.33%	3.85%	22.73%
Texas	13.00%	3.85%	0.00%	0.00%	3.85%
Tillman	12.00%	8.33%	3.85%	0.00%	12.50%
Tulsa	11.00%	9.09%	8.33%	3.85%	22.73%
Wagoner	11.20%	8.93%	8.20%	2.27%	20.54%
Washington	12.00%	8.33%	3.85%	0.00%	12.50%
Washita	11.00%	9.09%	8.33%	3.85%	22.73%
Woods	11.50%	8.70%	8.00%	0.00%	17.39%
Woodward	11.00%	9.09%	8.33%	3.85%	22.73%
AVERAGE	11.55%	8.48%	6.07%	1.75%	17.16%
MINIMUM	11.00%	0.00%	0.00%	0.00%	0.00%
MAXIMUM	13.50%	9.09%	8.33%	3.85%	22.73%
STD DEV	0.59%	1.30%	2.73%	1.85%	5.77%
MEDIAN	11.40%	8.77%	8.06%	0.75%	18.42%

Table 2. Personal Property Assessment Percentages for 1995 and Potential Percent Change in Assessed Value Given a One Percentage Point Increase, One Period to the Next, by County

County	1995 Ratio	1st Potential Increase	2nd Potential Increase	3rd Potential Increase	4th Potential Increase	5th Potential Increase	Max increase over time
Adair	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Alfalfa	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Atoka	10.00%	10.00%	9.09%	8.33%	7.69%	7.14%	50.00%
Beaver	13.00%	7.69%	7.14%	0.00%	0.00%	0.00%	15.38%
Beckham	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Blaine	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
Bryan	13.00%	7.69%	7.14%	0.00%	0.00%	0.00%	15.38%
Caddo	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Canadian	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Carter	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Cherokee	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
Choctaw	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
Cimarron	13.00%	7.69%	7.14%	0.00%	0.00%	0.00%	15.38%
Cleveland	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Coal	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Comanche	11.30%	8.85%	8.13%	7.52%	4.90%	0.00%	32.74%
Cotton	11.50%	8.70%	8.00%	7.41%	3.45%	0.00%	30.43%
Craig	11.50%	8.70%	8.00%	7.41%	3.45%	0.00%	30.43%
Creek	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Custer	10.00%	10.00%	9.09%	8.33%	7.69%	7.14%	50.00%
Delaware	11.50%	8.70%	8.00%	7.41%	3.45%	0.00%	30.43%
Dewey	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
Ellis	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Garfield	15.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Garvin	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
Grady	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
Grant	12.50%	8.00%	7.41%	3.45%	0.00%	0.00%	20.00%
Greer	15.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Harmon	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Harper	13.00%	7.69%	7.14%	0.00%	0.00%	0.00%	15.38%
Haskell	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
Hughes	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
Jackson	10.00%	10.00%	9.09%	8.33%	7.69%	7.14%	50.00%
Jefferson	15.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Johnston	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Kay	14.00%	7.14%	0.00%	0.00%	0.00%	0.00%	7.14%
Kingfisher	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
Kiowa	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Latimer	10.00%	10.00%	9.09%	8.33%	7.69%	7.14%	50.00%
LeFlore	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
Lincoln	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Logan	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Love	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
McClain	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
McCurtain	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
McIntosh	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
Major	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
Marshall	10.00%	10.00%	9.09%	8.33%	7.69%	7.14%	50.00%
Mayes	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
Murray	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Muskogee	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Noble	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Nowata	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Okfuskee	13.00%	7.69%	7.14%	0.00%	0.00%	0.00%	15.38%
Oklahoma	15.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Okmulgee	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Osage	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Ottawa	15.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Pawnee	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Payne	11.40%	8.77%	8.06%	7.46%	4.17%	0.00%	31.58%
Pittsburg	13.00%	7.69%	7.14%	0.00%	0.00%	0.00%	15.38%
Pontotoc	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Pottawatomie	14.00%	7.14%	0.00%	0.00%	0.00%	0.00%	7.14%
Pushmataha	10.00%	10.00%	9.09%	8.33%	7.69%	7.14%	50.00%
Roger Mills	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Rogers	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
Seminole	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Sequoyah	10.00%	10.00%	9.09%	8.33%	7.69%	7.14%	50.00%
Stephens	10.00%	10.00%	9.09%	8.33%	7.69%	7.14%	50.00%
Texas	13.00%	7.69%	7.14%	0.00%	0.00%	0.00%	15.38%
Tillman	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Tulsa	10.00%	10.00%	9.09%	8.33%	7.69%	7.14%	50.00%
Wagoner	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Washington	15.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Washita	15.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Woods	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%
Woodward	11.00%	9.09%	8.33%	7.69%	7.14%	0.00%	36.36%
AVERAGE	11.93%	7.87%	7.07%	5.89%	2.73%	0.83%	27.15%
MINIMUM	10.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
MAXIMUM	15.00%	10.00%	9.09%	8.33%	7.69%	7.14%	50.00%
STD DEV	1.32%	2.59%	2.64%	3.09%	3.45%	2.31%	13.25%
MEDIAN	12.00%	8.33%	7.69%	7.14%	0.00%	0.00%	25.00%

\$100,000. Suppose that one year later, even though you have not changed the property, the property is worth a fair cash value of \$115,000 because of price appreciation. Under SQ 676 the assessor can raise the value for tax purposes only 5% to \$105,000. The following year the assessor would presumably raise the value another 5% to \$110,250. The bottom line with SQ 676 is that the increase in a property's value, hence the property taxes due, from one year to the next is limited (with a few exceptions).

Exception number one is if the property is sold or otherwise transferred from one owner to another. Exception number two is if the property is changed or improved. An example would be an additional four hundred square feet of structure added to a home or business. Whether ownership is conveyed or the property is changed, SQ 676 would require that the fair cash value be estimated as required by law, just as required currently, and any market indicated "fair cash value" increase would not be limited to 5%. In other words, in the cases of property transfer or change, current law applies even if SQ 676 is adopted.

Another exception is if a county is "out of compliance." "Out of compliance" basically means that the county assessor has not adequately met current legal standards of appraising fair cash value. In other words, properties in the county are under- (or over) valued, usually the former. In this case, relatively large increases in fair cash value may need to occur on some properties before the 5% limit of SQ 676 takes effect. The Oklahoma Tax Commission, Ad Valorem Division and the State Board of Equalization have found non-compliance on several occasions in the past.

Two obvious consequences of SQ 676 are: (1) taxpayers will experience no more than a 5% increase in fair cash value in most cases and therefore avoid large property tax increases in a given year; (2) taxable value growth will be slowed (in some cases) resulting in slower growth in tax revenue for the various services supported by that revenue. The 5% increase limit applies only to real property, not personal property nor public service property. Real property composes, on average, 65% of the taxable value in an Oklahoma county. By imposing a fair cash value growth limit, taxpayers may benefit by being better able to plan for and budget for household and business expenses.

Tax revenue growth will be slowed in those counties experiencing rapid appreciation in real property values. This would likely occur in only a small portion of the counties in the state. Urban areas experiencing rapid economic growth are most likely to be affected. The following statistics are county averages for real property value growth so they do not give a true picture of how the 5% limit will affect counties. However, these statistics do give an indication of how extensive the 5% limit may be. From 1988 through 1995 four counties experienced greater than a 5% average rate of growth in taxable real property value and from 1993 through 1995 there were seven counties with average growth rates exceeding 5%.⁵ It is not

⁵ Source: Table 2 of Oklahoma Cooperative Extension Service CR-762, "Understanding State Question 669 and How It Affects Growth in Taxable Property Value."

clear how much of these increases was due to appreciation of existing properties and how much was due to new construction, so actual rates of growth in property value may be less. Nevertheless, to the extent that these statistics indicate economic growth, they indicate counties where the 5% limit would be applied. On the other hand, many rural counties with slow, level, or even declining economic activity, may not be affected by this proposed amendment.

State Question 677 - Fair Cash Value Limit for Poorer Senior Citizens

During the debate of SQ 669, concern was voiced regarding the ability of senior citizens on limited income to pay rising property taxes. State Question 677 (SQ 677) provides protection for senior citizens with low income from rising taxes on their homestead by establishing an upper limit on the fair cash value of the homestead in the year in which they qualify. Specifically, beginning in 1997, the fair cash value on the homestead of a head of household⁶ sixty-five years of age or more, whose gross household income from all sources⁷ the previous year did not exceed \$25,000, shall not rise above the fair cash value placed on the property in the year in which the individual qualified. The fair cash value is capped so long as the head of household owns and occupies the homestead and gross annual household income does not exceed \$25,000.

Improvements to such a property will be added at fair cash value according to law and added to the fair cash value maximum previously established. Thereafter, the revised total value of the homestead shall be the upper limit so long as the head of household continues to qualify.

If the head of household ceases to own and occupy the property or if the gross household income in a calendar year exceeds \$25,000, the fair cash value shall be determined according to current law (principally, Section 8, Article X of the Constitution). In other words, the fair cash value would no longer be limited but would be reassessed like any other homestead.

SQ 677 is a property tax relief provision for poorer senior citizens. It would be in addition to existing relief measures. Current relief measures are: (1) an additional homestead exemption and (2) a cash claim "circuit breaker."⁸ The first provides an additional homestead exemption for heads of household with limited income. Beginning January 1, 1997, any head of household with gross household income of \$20,000 or less may apply for and receive an additional homestead exemption. This additional exemption is the same as the regular homestead exemption, a \$1,000 reduction in assessed valuation. The second relief measure applies both

⁶ Title 68, section 2890, Oklahoma Statutes defines head of household as "a person who as owner or joint owner maintains a home and furnishes his own support for said home, furnishings, and other material necessities."

⁷ Title 68, section 2890, Oklahoma Statutes defines gross household income as "gross amount of income of every type, regardless of the source, received by all persons occupying the same household, whether such income was taxable or nontaxable for federal or state income tax purposes, including ..."

⁸ Oklahoma Statutes, 1996, title 68, sections 2890, and 2906 - 2907.

to senior citizens and totally disabled persons whose gross household income does not exceed \$12,000. Depending on actual gross income and property tax on the homestead, such a person may claim up to a \$200 reimbursement. So, existing law provides some property tax relief provisions for poorer senior citizens. SQ 677 would be in addition to these.

Ramifications of SQ 677 include (1) a benefit to senior citizen households with limited income and (2) some lost tax dollars in future years to schools, counties, vo-techs, and other entities receiving property tax dollars. According to the 1990 Census, 207,413 (17%) of Oklahoma householders (renters and owners) were 65 years of age or older and had household income of less than \$25,000. This is 74% of householders 65 years of age or more. The Census does not reveal the breakdown between owners and renters in this group. Another Census finding was that 68% of householders are home owners and that 29% (236,996) of these householder/owners were 65 years of age or older. Hence, we might estimate that 141,000 (207,413 X 29%) to 175,000 (236,996 X 74%) would qualify for SQ 677 benefits. This amounts to 12% to 15% of housing units. Contrasting the definition of "gross household income" in Oklahoma statutes with "household income" for Census purposes, shows that "gross household income" is somewhat broader. Thus, fewer seniors may qualify for SQ 677 benefits than the Census data listed above may imply.

Limiting the value of these housing units will have an impact on tax revenues. The actual magnitude of the impact will vary from place to place depending on factors like (1) number and value of owner-occupied senior citizen housing units and (2) what portion of the total tax roll these comprise. On the other hand, limiting taxes on poorer senior citizens, especially those with limited incomes, leaves them more money for other uses.

The longer-term consequences of SQ 677 depends on the portion of the population that qualifies for this proposed benefit and the corresponding taxable value of their homesteads. Demographers tell us that the percentage of the population sixty-five years or older will grow significantly larger as the "baby boom" generation reaches retirement age. If many of these people own homes and make \$25,000 or less, the tax base will not grow as rapidly as it would in the absence SQ 677. On the other hand, as time passes, if price inflation continues, the number of households whose gross income does not exceed \$25,000 will probably shrink.

Our state and nation have adopted numerous public policies aimed at benefiting certain segments of the populace. (For example, the State of Texas has a provision similar to this proposal that applies to the homestead of all senior citizens without regard to income level.) Given this history, society as a whole may deem the benefits to these poorer senior citizens well worth the cost (in terms of lost tax revenue). This is a question for voters to consider when voting on SQ 677.

Ballot Titles

BALLOT TITLE

Legislative Referendum No. 305 State Question No. 675

THE GIST OF THE PROPOSITION IS AS FOLLOWS:

This measure amends the Oklahoma Constitution. It amends Section 8 of Article 10. It changes the way property is assessed for tax purposes. It would modify the percentage used to assess property. This measure would limit the percentage of fair cash value at which property may be assessed. The percentage for land would not be more than 13.5% nor less than 11%. The percentage for personal property would not be more than 15% nor less than 10%. The people may vote to increase the percentage. These limits would apply only to locally assessed property. These limits would not apply to all property. Property assessed by the State Board of Equalization would use a different percentage. The percentage used by the State Board to make assessments would be the percentage used on January 1, 1996.

SHALL THE PROPOSED AMENDMENT BE APPROVED?

_____ For the Amendment - YES
_____ Against the Amendment - NO

BALLOT TITLE

Legislative Referendum No. 306 State Question No. 676

THE GIST OF THE PROPOSITION IS AS FOLLOWS:

This measure amends Article 10 of the Oklahoma Constitution. It adds a new section 8B. This measure would limit the fair cash value of real property for property tax purposes. The fair cash value would not increase by more than 5% in any taxable year. This limit would only apply to real property which is assessed by a county assessor. If the property is transferred, changed, or conveyed, the limitation would not apply for that year. The limitation does not apply if improvements have been made to the property. If improvements have been made to the property, the increased value to the property will be assessed for that year. Any county which is not in compliance with laws or regulations governing valuation of property would not be allowed to apply the 5% limitation. This measure does not apply to personal property. This measure does not apply to property valued or assessed by the State Board of Equalization. The legislature would be allowed to enact

laws to implement this section. This measure would take effect on January 1, 1997.

SHALL THE PROPOSED AMENDMENT BE APPROVED?

_____ For the Amendment - YES
_____ Against the Amendment - NO

BALLOT TITLE

Legislative Referendum No. 307 State Question No. 677

THE GIST OF THE PROPOSITION IS AS FOLLOWS:

This measure amends the Oklahoma Constitution. This measure would add a new section to Article 10 designated section 8C. It would limit the fair cash value on a homestead for property tax purposes. The homestead must be owned by a person who is 65 years of age or older, with a gross household income of \$25,000.00 or less. The fair cash value would not exceed the value of the homestead the first year the individual reached the age of 65 years and had a gross household income of \$25,000.00 or less. Improvements to the property would be added to the assessed value of the property. This measure would become effective on January 1, 1997. If the individual ceases to own and occupy the property, the fair cash value would be assessed as all other real property. If the gross household income exceeds \$25,000.00, the fair cash value will be determined as all other real property according to law.

SHALL THE PROPOSED AMENDMENT BE APPROVED?

_____ For the Amendment - YES
_____ Against the Amendment - NO

Summary and Implications

Virtually any state question, law or public policy decision has consequences. These may be labeled as costs and benefits, yet the benefit to one person may be a cost to another. Benefits, costs, and, perhaps, more appropriately, the consequences of these three state questions is summarized along with a summary of the provisions of each of the three proposed constitutional changes.

SQ 675 - Assessment Percentage Limit

Would put limits on the range of acceptable assessment percentages. Real property would be assessed at 11% to 13.5% of value. Personal property would be assessed at 10% to 15% of value. These are the assessment percentage ranges currently in use among counties across the state.

Provisions are made for up to a one percentage point increase per year within the ranges.

1. This prevents extraordinary increases in assessment percentages. Taxpayers may view this as good protection. Those units of government supported by property taxes may view this as a limitation on future funding. Regardless of one's view, there is no immediate impact.
2. Voters have a new right; the right to increase their taxes by increasing their assessment percentage within the designated limits. Some taxpayers will view this as bad since it allows an opportunity for future increases. Others will view this as good because it allows some opportunity (an option) to use the property tax to increase future funding of services supported by the tax.

SQ 676 - Annual Limit on Increase in Fair Cash Value

Current law calls for regular reappraisal of taxable property in keeping with market value regardless of how much value may increase in a given time period. SQ 676 would, in most cases, place a 5% annual limit on potential increases in value.

1. Taxpayers owning rapidly appreciating property may like this proposal since it has the potential to slow the corresponding rise in taxes. Other taxpayers, who continue to pay taxes based on full fair cash value, may feel that the growth limitation is unfair. Why should they pay on full value while persons fortunate to have property increasing in value at greater than 5% per year do not have to pay taxes based on full fair cash value?
2. Recent history shows that relatively few counties have experienced average real property values increasing at more than 5% per year.
3. Property tax support for entities providing public services may be limited.

SQ 677 - Fair Cash Value Limit for Poorer Senior Citizens

For property tax purposes, SQ 677 would limit valuation of homesteads for senior citizens whose gross income from all sources is \$25,000 or less.

1. Thus, this provision basically provides a property tax ceiling on the homestead of these poorer senior citizens. Obviously, qualifying citizens whose homestead value is increasing would benefit because they would not be subject to subsequent increasing taxes. (Note, however, that if SQ 675 passes and voters choose to increase the local assessment percentage, seniors qualifying under SQ 677 would also experience an increase in taxes. Even though the value stays the same, a higher assessment percentage applied to a given value means a larger assessed value.)
2. Assuming SQ 677 would become effective in 1997, the immediate affect would be zero. The proposed amendment would only hold down taxes in future years. The amount will vary greatly depending upon the number of qualifying citizens and the value of their homesteads.

3. The total impact on the tax roll is not likely to be a large percentage of property tax revenues. Seniors own 29% of owner-occupied housing and 74% of senior householders make less than \$25,000 household income (by Census definition). Homes are only part of the total

amount of taxable real property. Taxable real property is only a part of total taxable property. Therefore, in most cases, the total amount of tax relief under this provision appears to be relatively small compared to total property tax collections.

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