Oregon
John A. Kitzhaber, MD, Governor

Department of Revenue
Property Tax Division
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DATE: April 28, 2014

TO: All County Treasurers/Tax Collectors

FROM: Bram Ekstrand
Property Tax Division
Oregon Department of Revenue

RE: Certification of Percentages for the 2014-15 CATF Account

This memo is to certify the percentage of delinquent interest charged and collected under ORS 311.505 to be deposited and credited to the County Assessment and Taxation Fund (CATF) account for the fiscal year 2014-2015.

The **first tier factor is 25 percent** and becomes effective July 1, 2014. The first tier is the first 25 percent of all delinquent interest collected that is to be credited to the CATF account.

The **second tier factor is 33.33 percent** and also becomes effective July 1, 2014. The second tier factor will be applied to the monthly interest that normally would be distributed to districts other than schools and the county at the point at which the interest is distributed.

It is important to remember that in accordance with ORS 311.508(1)(a) and (b) and (4), both the Tier 1 and Tier 2 percent of the interest charged and collected should be deposited and credited immediately to the CATF account (ORS 294.187); no Tier 1 or Tier 2 interest should remain in the unsegregated account.

If you have any questions, please call Karen Anderson at (503) 779-3972, or Bram Ekstrand at (503) 302-1947.

CAFFA Forecast
April 2014
Prepared by M. McCown, DOR Research Section

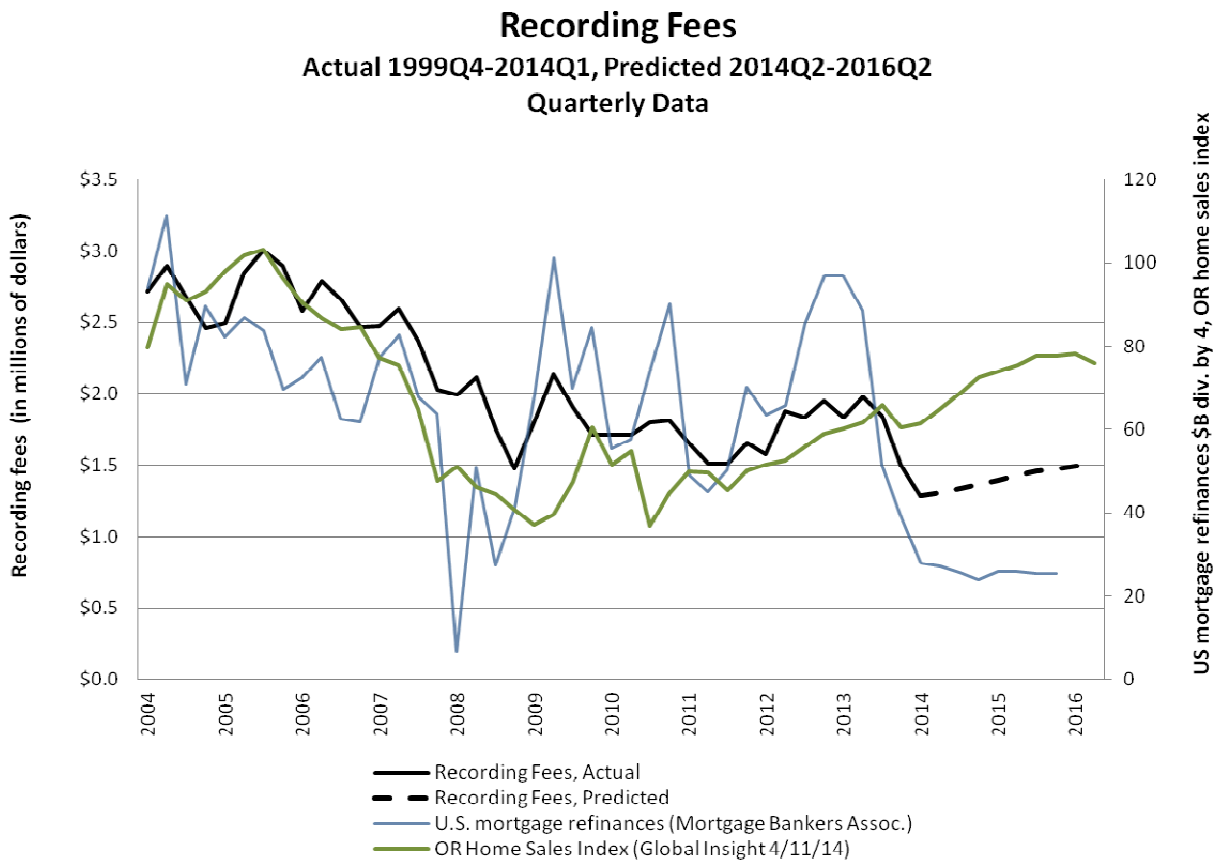
The total CAFFA funds to be distributed in **FY 2014-15 are projected to total $17.4 million**, a decrease of 10.2% from $19.3M in FY 2013-14. A distribution of $17.2 million is projected in FY 2015-16. **These projections reflect a major downward adjustment to the preliminary forecast from February, more than $2M each fiscal year.**

There are two major components of the CAFFA forecast: delinquent interest and recording fees. Delinquent interest is tracking according to the preliminary forecast, and this forecast presents only a minor adjustment to incorporate an additional quarter of actual data. In contrast, the recording fees component of this forecast is projected with a new statistical model and new assumptions.

Recording fees in Oregon fell sharply in the last (calendar year) quarter of 2013, causing the expected recording fees for the quarter to reach only $1.5M, which was approximately $600k below our April 2013 forecast for the same quarter. In February's preliminary 2014 forecast, it was expected that fees would recover at a modest pace going forward. However, in the first quarter of 2014, fees again fell sharply to reach $1.29M, a low level not seen since 1999. The significant downgrade of this forecast is due to this low level of recording fees and a pessimistic forward outlook for mortgage markets, particularly the mortgage refinance market.

Recording fees are by their nature strongly influenced by the housing market. Statistically, recording fees (in black on the chart on the following page) have historically been positively correlated with home sales (green). Between the third and fourth quarters of 2013, there was a downward trend in home sales, and a corresponding sharp downward trend in the level of recording fees. Home sales were projected to stabilize and begin to grow in 2014. Our preliminary CAFFA forecast treated the sharp downturn in recording fees as an event limited to the last months of 2013 rather than a new trend or dramatic shift in the expected level of recording fees going forward. We assumed modest growth in fees going forward, although our projection was not as optimistic as the home sales index.

Now, with data from the first quarter of 2014, we find that recording fees have again declined sharply, and further, that the trends of home sales and recording fees have diverged. We looked at recording fees at a more detailed level and received invaluable information and insight from individuals with county offices about hypothesized causes of the sharp downturn in recording fees, mostly related to mortgage refinancing activity. The elevated plateau of recording fees seen in the following chart (in black) from 2012 until mid-2013 likely reflects the extensive refinancing activity that took place while interest rates were at historically low levels.



Note: The indexes (in green and blue) are not to scale, they are presented to illustrate patterns, not magnitude.

The National Notary Association reported this week that, according to data from the Mortgage Bankers Association, mortgage originations were down 57 percent year over year for the first quarter of the year. Further, "rising interest rates and a tighter regulatory environment have slashed refinance activity by 70 percent from a year ago."[1] Investors purchasing homes with cash have also cut into mortgage activity.[2] The latter has masked the mortgage lending slump in housing indicators, which are generally indicating a modest but positive outlook.

Home sales is a relatively robust predictor of recording fees – the most robust predictor of many explored by our group over the years – but we believe that refinance activity is driving the recent trend in recording fees. The new model for recording fees incorporates data for both. We constructed a data series of U.S. refinancing activity based upon monthly forecast documents by the Mortgage Bankers Association, and we will be keeping an eye on refinancing activity going forward.

[1] NationalNotary.org 4/23/14 bulletin: "Mortgage Lending Continues Slump Through First Quarter of 2014"
[2] The National Notary blog noted that, according to the National Association of Realtors, "All-cash transactions accounted for a third of home sales in January and February" of 2014.

We performed some sensitivity analysis of the new model. Our forecast is a point estimate, and there are always various scenarios that can play out. A Wall Street Journal business blog ("New Mortgage Lending at 14-year Low," 4/9/14) warned that "refinancing could fall much lower if [mortgage interest] rates climb back above 5%." Since we believe that there is downside risk – that is that CAFFA funds could be even lower going forward – we tested a more pessimistic scenario for each of the main predictors of the model.

One scenario is that home sales actually do not grow and instead stall. If we held the home sales index flat at 61 through the second quarter of 2015 and then increase the index by two percent each quarter in FY 2015-16, the CAFFA funds distribution for FY 2014-15 would be projected to decline to $17.1M, and to $16.6M in FY 2015-16.

A second scenario is that mortgage refinance activity in the U.S. drops even further, perhaps due to a further increase in mortgage rates. We construct a scenario where refinances decline by 10% each quarter through 2014 and declining further by two percent each remaining quarter in the forecast period. This would result in a CAFFA funds projected distribution of $17.3M for FY 2014-15 and $16.9 in FY 2015-16.

If both scenarios occurred simultaneously, FY 2014-15 CAFFA funds would be projected to reach $17.0M, and $16.3M in FY 2015-16.

The new forecast model is not very sensitive to these scenarios in the short term, and is instead relatively stable, perhaps because we are forecasting the recording fees from the current low level as if recording fees have bottomed out, and also due to the stabilizing influence of delinquent interest.

Delinquent interest is tracking according to the preliminary forecast. The delinquent interest portion of CATF has two components: Tier 1, which is 25% of total interest on delinquent taxes, and Tier 2, an additional 25% of interest on delinquent taxes from non-school, non-county districts. If the Tier 1 rate is 25% and the total estimated Tier 1 plus Tier 2 interest is below $13 million, the Tier 1 rate is adjusted to achieve a goal of $13 million per fiscal year, up to a cap of an additional $3 million.[3] The Tier 2 rate is not adjusted. We project the CAFFA deposit with Tier 1 interest to be above the $13 million mark in FY 2014-15, so **the Tier 1 certified rate is projected to be 25%.** The resulting Tier 2 rate is projected to be 33.33%.

Our forecast model predicts delinquent interest as a function of total uncollected property tax. Historical data shows that the total amount of uncollected property tax dropped after 2003, corresponding with the economic recovery following a recessionary period, and the amount increased sharply during the Great Recession. In 2011 and again in 2012, we expected total uncollected property tax to begin to decline, however the balance continued to grow.

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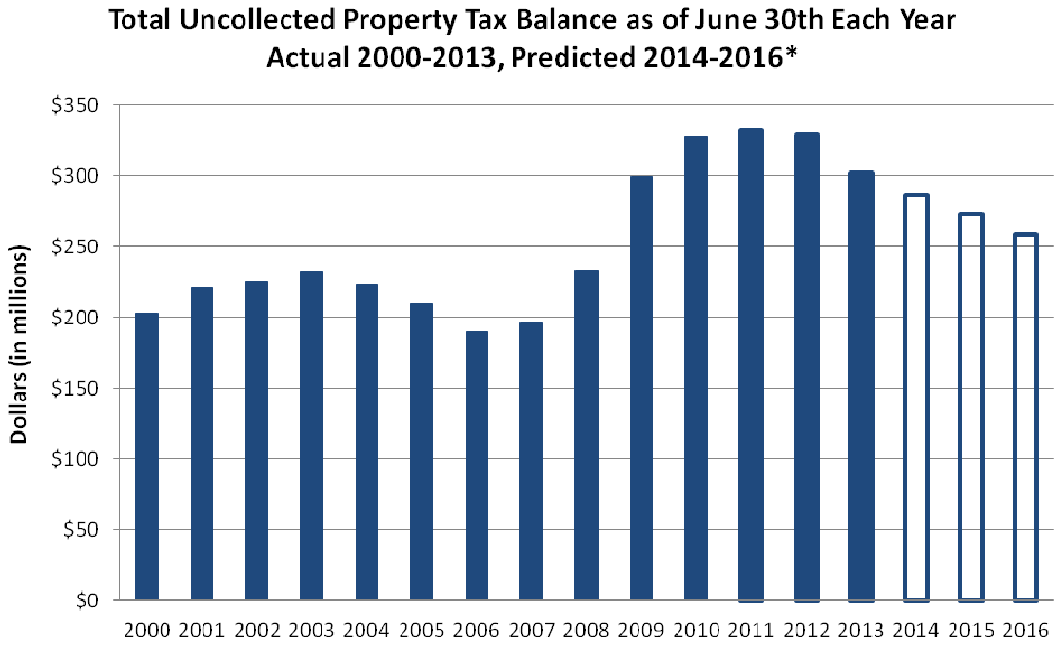
[3] When uncollected taxes are low, the $13 million goal may not be achieved even after increasing Tier 1 rate. For example, in FY 2007-08, the projected Tier 1 (at 25% rate) plus Tier 2 collections were forecasted to be $8.9 million. The Tier 1 rate was adjusted to add $3 million resulting in an $11.9 million forecast and a Tier 1 rate of 36.65%. Even though maximum allowed increase was taken, the goal of $13 million was not achieved.

In 2012, there was a dramatic 10.7 percent increase in the total balance. In analyzing the underlying data, it appears that the 2012 growth resulted from a sharp increase in deferred billing credits, primarily for utility properties. Delinquent interest payments are not expected to be made on these credits, so it is more appropriate to exclude them from the CAFFA forecast model.

The graph below reflects unpaid taxes with an adjustment to 2012 and 2013 actual figures to remove the amount estimated to be a result of deferred billing credits for utility properties. After making this adjustment, we find that the total delinquent tax balance began to decline in 2013. This forecast assumes that the decline will continue, at a rate of five percent each year, as the economy recovers.



*The 2012 and 2013 actual figures are adjusted downward to remove the amount estimated as resulting from a sharp increase in deferred billing credits for utility properties.

County and state investment earnings have experienced a steep decline since 2008 due to extremely low interest rates. Interest rates have begun to tick up in the past two quarters, and we accept the assumption of our vendor that interest rates will increase in late 2015 or early 2016 (Global Insight's 4/3/2014 projection of discount rate on 3-month Treasury bills). For FY 2014-15, $35.7k in combined county and state interest earnings is projected; $69.2k is projected for FY 2015-16. These figures represent a small portion of CAFFA funds.

COUNTY ASSESSMENT AND TAXATION FUND
QUARTERLY REVENUE FORECAST, 4/25/2014

Note: Items in bold are forecast values.
Tier 1 interest is based on a rate of 25.0% for 2014-15.

Fiscal Year (July 1-June 30)	FIRST QUARTER (Jul-Sep)	SECOND QUARTER (Oct-Dec)	THIRD QUARTER (Jan-Mar)	FOURTH QUARTER (Apr-Jun)	TOTAL	Year Over Year Growth
Delinquent Interest Revenue (Tier 1 + Tier 2)						
2002-03	4,216,902	3,907,092	2,560,921	3,358,081	14,042,996	4.0%
2003-04	4,118,056	3,006,459	2,726,028	3,610,924	13,461,467	-4.1%
2004-05	3,659,489	2,977,821	2,074,303	2,953,061	11,664,673	-13.3%
2005-06	3,956,589	2,935,621	2,021,148	3,113,704	12,027,061	3.1%
2006-07	3,618,157	2,861,776	1,944,324	3,253,268	11,677,525	-2.9%
2007-08	3,781,113	3,114,601	1,940,600	3,300,421	12,136,735	3.9%
2008-09	4,312,320	2,938,064	1,980,618	3,574,109	12,805,111	5.5%
2009-10	4,922,240	3,413,350	2,656,318	4,127,120	15,119,027	18.1%
2010-11	4,854,020	3,497,502	2,349,674	4,186,905	14,888,102	-1.5%
2011-12	4,483,911	3,468,414	2,476,193	4,217,557	14,646,074	-1.6%
2012-13	5,066,819	3,905,783	2,478,477	4,143,230	15,594,309	6.5%
2013-14	4,917,017	3,445,283	2,345,518	**3,843,933**	**14,551,751**	**-6.7%**
2014-15	**4,580,445**	**3,264,281**	**2,171,036**	**3,668,236**	**13,683,998**	**-6.0%**
2015-16	**4,403,686**	**3,095,250**	**2,002,554**	**3,498,509**	**13,000,000**	**-5.0%**
Recording Fee						
2002-03	2,535,318	2,814,037	3,022,537	3,433,283	11,805,175	16.7%
2003-04	3,595,312	3,199,762	2,719,546	2,893,471	12,408,091	5.1%
2004-05	2,675,375	2,459,046	2,491,107	2,845,455	10,470,984	-15.6%
2005-06	3,000,191	2,893,880	2,578,741	2,786,524	11,259,336	7.5%
2006-07	2,657,887	2,463,594	2,475,128	2,592,169	10,188,778	-9.5%
2007-08	2,368,383	2,028,617	1,992,546	2,116,308	8,505,854	-16.5%
2008-09	1,751,768	1,472,569	1,796,297	2,134,877	7,155,511	-15.9%
2009-10	1,903,296	1,714,444	1,715,981	1,710,432	7,044,153	-1.6%
2010-11	1,798,621	1,810,697	1,656,668	1,511,343	6,777,329	-3.8%
2011-12	1,512,747	1,657,808	1,577,647	1,875,055	6,623,257	-2.3%
2012-13	1,835,148	1,950,347	1,831,640	1,975,973	7,593,107	14.6%
2013-14	1,842,080	1,498,028	1,285,108	**1,309,676**	**5,934,892**	**-21.8%**
2014-15	**1,335,285**	**1,362,668**	**1,396,647**	**1,427,169**	**5,521,768**	**-7.0%**
2015-16	**1,455,684**	**1,475,920**	**1,492,378**	**1,494,214**	**5,918,196**	**7.2%**
County Investment Earnings						
2002-03	28,868	24,429	33,517	16,499	103,313	-23.5%
2003-04	18,786	14,187	14,825	12,909	60,706	-41.2%
2004-05	14,975	20,407	20,092	23,969	79,443	30.9%
2005-06	30,527	35,258	36,867	45,104	147,756	86.0%
2006-07	52,007	43,179	35,932	46,260	177,377	20.0%
2007-08	48,312	44,207	29,000	21,578	143,096	-19.3%
2008-09	26,737	20,912	13,016	11,584	72,249	-49.5%
2009-10	15,019	10,264	8,753	7,294	41,331	-42.8%
2010-11	9,057	6,399	4,998	8,499	28,953	-29.9%
2011-12	6,401	4,599	4,230	6,067	21,297	-26.4%
2012-13	7,484	7,212	5,290	4,349	24,335	14.3%
2013-14	11,375	4,704	3,531	**5,120**	**24,731**	**1.6%**
2014-15	**6,019**	**6,536**	**6,874**	**7,286**	**26,715**	**8.0%**
2015-16	**8,634**	**11,405**	**14,694**	**18,464**	**53,198**	**99.1%**
Total						
2002-03	6,781,088	6,745,587	5,616,975	6,807,864	25,951,514	9.3%
2003-04	7,732,154	6,220,416	5,460,399	6,517,348	25,930,316	-0.1%
2004-05	6,349,839	5,457,275	4,585,502	5,822,484	22,215,100	-14.3%
2005-06	6,987,307	5,864,759	4,636,756	5,945,332	23,434,153	5.5%
2006-07	6,328,050	5,368,549	4,455,384	5,891,696	22,043,679	-5.9%
2007-08	6,197,807	5,187,426	3,962,146	5,438,307	20,785,686	-5.7%
2008-09	6,090,825	4,431,545	3,789,932	5,720,569	20,032,871	-3.6%
2009-10	6,840,555	5,138,058	4,381,052	5,844,846	22,204,511	10.8%
2010-11	6,661,698	5,314,598	4,011,340	5,706,747	21,694,383	-2.3%
2011-12	6,003,059	5,130,820	4,058,070	6,098,679	21,290,628	-1.9%
2012-13	6,909,450	5,863,342	4,315,408	6,123,552	23,211,751	9.0%
2013-14	6,770,472	4,948,015	3,634,157	**5,158,730**	**20,511,374**	**-11.6%**
2014-15	**5,921,749**	**4,633,485**	**3,574,557**	**5,102,691**	**19,232,481**	**-6.2%**
2015-16	**5,868,003**	**4,582,576**	**3,509,627**	**5,011,188**	**18,971,394**	**-1.4%**

QUARTERLY FORECAST OF CAFFA DISTRIBUTIONS TO COUNTIES

Fiscal Year (July 1-June 30)	FIRST QUARTER (July-Sept)	SECOND QUARTER (Oct-Dec)	THIRD QUARTER (Jan-Mar)	FOURTH QUARTER (Apr-Jun)	TOTAL	Year Over Year Growth
State Investment Earnings						
2002-03	4,547	5,867	5,750	1,580	17,744	-53.1%
2003-04	3,008	4,988	3,205	1,688	12,889	-27.4%
2004-05	2,647	3,231	4,267	7,254	17,398	35.0%
2005-06	6,302	8,751	8,071	6,977	30,100	73.0%
2006-07	15,727	15,527	14,900	7,857	54,011	79.4%
2007-08	12,144	8,526	11,718	5,339	37,728	-30.1%
2008-09	7,437	6,052	2,568	1,547	17,604	-53.3%
2009-10	2,017	2,893	1,400	1,017	7,327	-58.4%
2010-11	4,498	5,575	5,249	5,077	20,398	178.4%
2011-12	8,389	9,522	7,182	1,373	26,466	29.7%
2012-13	1,706	2,365	1,373	1,320	6,765	-74.4%
2013-14	933	1,588	1,047	**1,782**	**5,349**	**-20.9%**
2014-15	**2,082**	**2,209**	**2,276**	**2,372**	**8,939**	**67.1%**
2015-16	**2,755**	**3,533**	**4,385**	**5,328**	**16,001**	**79.0%**
Adjustments						
2002-03	72,726	93,284	164,274	37,518	367,803	
2003-04	106,806	192,856	29,520	0	329,183	
2004-05	24,461	0	0	0	24,461	
2005-06	22,249	178,314	0	8,071	208,633	
2006-07	0	0	3,069	0	0	
2007-08	0	0	-59,498	0	-59,498	
2008-09	0	0	0	0	0	
2009-10	0	0	0	0	0	
2010-11	0	0	0	0	0	
2011-12	0	0	0	0	0	
2012-13	0	0	0	0	0	
2013-14	0	0	0	**0**	**0**	
2014-15	**0**	**0**	**0**	**0**	**0**	
2015-16	**0**	**0**	**0**	**0**	**0**	
Total Revenue From Counties						
2002-03	6,785,636	6,751,454	5,622,725	6,809,443	25,969,258	9.2%
2003-04	7,735,162	6,225,404	5,463,604	6,519,036	25,943,205	-0.1%
2004-05	6,352,486	5,460,505	4,589,769	5,829,738	22,232,498	-14.3%
2005-06	6,993,608	5,873,510	4,644,826	5,952,309	23,464,253	5.5%
2006-07	6,343,777	5,384,076	4,473,353	5,899,553	22,100,759	-5.8%
2007-08	6,209,952	5,195,952	3,914,366	5,443,646	20,763,915	-6.0%
2008-09	6,098,262	4,437,597	3,792,500	5,722,116	20,050,475	-3.4%
2009-10	6,842,572	5,140,951	4,382,452	5,845,863	22,211,838	10.8%
2010-11	6,666,196	5,320,173	4,016,588	5,711,824	21,714,781	-2.2%
2011-12	6,011,447	5,140,342	4,065,252	6,100,052	21,317,093	-1.8%
2012-13	6,911,156	5,865,707	4,316,781	6,124,873	23,218,517	8.9%
2013-14	6,771,404	4,949,602	3,635,204	**5,160,512**	**20,516,723**	**-11.6%**
2014-15	**5,923,831**	**4,635,694**	**3,576,833**	**5,105,062**	**19,241,420**	**-6.2%**
2015-16	**5,870,759**	**4,586,109**	**3,514,012**	**5,016,515**	**18,987,395**	**-1.3%**
State's 10% Share						
2002-03	678,564	675,145	562,272	680,944	1,918,362	10.6%
2003-04	773,516	622,540	546,360	651,904	1,820,804	-5.1%
2004-05	556,784	546,051	458,977	582,974	1,588,001	-12.8%
2005-06	699,361	587,351	464,483	595,231	1,647,064	3.7%
2006-07	634,378	538,408	447,028	589,955	1,575,391	-4.4%
2007-08	620,995	519,595	391,437	544,365	2,076,392	31.8%
2008-09	609,826	443,760	379,250	572,212	2,005,047	-3.4%
2009-10	684,257	514,095	438,245	584,586	2,221,184	10.8%
2010-11	666,620	532,017	401,659	571,182	2,171,478	-2.2%
2011-12	601,145	514,034	406,525	610,005	2,131,709	-1.8%
2012-13	691,116	586,571	431,678	612,487	2,321,852	8.9%
2013-14	677,140	494,960	363,520	**516,051**	**2,051,672**	**-11.6%**
2014-15	**592,383**	**463,569**	**357,683**	**510,506**	**1,924,142**	**-6.2%**
2015-16	**587,076**	**458,611**	**351,401**	**501,652**	**1,898,740**	**-1.3%**

QUARTERLY FORECAST OF CAFFA DISTRIBUTIONS TO COUNTIES

Fiscal Year (July 1-June 30)	FIRST QUARTER (July-Sept)	SECOND QUARTER (Oct-Dec)	THIRD QUARTER (Jan-Mar)	FOURTH QUARTER (Apr-Jun)	TOTAL	Year Over Year Growth
Funds On Hand For Distribution						
2002-03	6,179,798	6,169,593	5,224,726	6,166,017	23,740,135	7.4%
2003-04	7,068,452	5,795,720	4,946,764	5,867,132	23,678,067	-0.3%
2004-05	5,820,163	4,914,455	4,130,792	5,246,764	20,112,174	-15.1%
2005-06	6,316,496	5,464,473	4,180,344	5,365,148	21,326,461	6.0%
2006-07	5,709,400	4,845,668	4,026,325	5,309,597	19,890,990	-6.7%
2007-08	5,588,956	4,676,357	3,522,930	4,899,281	18,687,524	-6.1%
2008-09	5,488,436	3,993,837	3,413,250	5,149,904	18,045,427	-3.4%
2009-10	6,158,315	4,626,856	3,944,207	5,261,277	19,990,654	10.8%
2010-11	5,999,576	4,788,156	3,614,929	5,140,642	19,543,303	-2.2%
2011-12	5,410,303	4,626,308	3,658,727	5,490,047	19,185,384	-1.8%
2012-13	6,220,041	5,279,136	3,885,103	5,512,385	20,896,665	8.9%
2013-14	6,094,264	4,454,642	3,271,684	**4,644,460**	**18,465,050**	**-11.6%**
2014-15	**5,331,448**	**4,172,124**	**3,219,150**	**4,594,556**	**17,317,278**	**-6.2%**
2015-16	**5,283,683**	**4,127,498**	**3,162,611**	**4,514,864**	**17,088,656**	**-1.3%**

Fiscal Year (July 1-June 30)	FIRST QUARTER (July-Sept)	SECOND QUARTER (Oct-Dec)	THIRD QUARTER (Jan-Mar)	FOURTH QUARTER (Apr-Jun)	TOTAL	Year Over Year Growth
Distribution of:	*Fourth Quarter Funds from Previous Fiscal Year*	*First Quarter Funds*	*Second Quarter Funds*	*Third Quarter Funds*		
Distribution (1)						
2002-03	5,884,998	6,179,798	6,169,593	5,224,726	23,459,116	7.8%
2003-04	6,166,017	7,068,452	5,795,720	4,946,764	23,976,953	2.2%
2004-05	5,867,132	5,820,163	4,914,455	4,130,792	20,732,542	-13.5%
2005-06	5,246,764	6,316,496	5,464,473	4,180,344	21,208,077	2.3%
2006-07	5,365,148	5,709,400	4,845,668	4,026,325	19,946,541	-5.9%
2007-08	5,309,597	5,588,956	4,676,357	3,522,930	19,097,840	-4.3%
2008-09	4,899,281	5,488,436	4,437,596	2,969,491	17,794,804	-6.8%
2009-10	5,149,904	6,158,315	4,626,856	3,944,207	19,879,282	11.7%
2010-11	5,261,277	5,999,576	4,788,156	3,614,929	19,663,938	-1.1%
2011-12	5,140,642	5,410,303	4,626,308	3,658,727	18,835,979	-4.2%
2012-13	5,490,047	6,220,041	5,279,136	3,885,103	20,874,326	10.8%
2013-14	5,512,385	6,094,264	4,454,642	3,271,684	19,332,975	-7.4%
2014-15	**4,644,460**	**5,331,448**	**4,172,124**	**3,219,150**	**17,367,182**	**-10.2%**
2015-16	**4,594,556**	**5,283,683**	**4,127,498**	**3,162,611**	**17,168,348**	**-1.1%**

Note: Items in bold are forecast values.

(1) Funds distributed on or around the 10th day following the end of the previous quarter.