

Local Property Tax Option for School Districts

House Committee on Revenue
February 7, 2018

Legislative Revenue Office

Contents

- Background Information – M5 and M50
- Local Option – History and Current Use
- Constitutional and Statutory Constraints in detail – How Constraints Work
- Lessons for Us, Finance Types

- Not an Assessment on M5 and M50
- Not about School Funding Adequacy/Inadequacy

Measure 50 on top of Measure 5

- In 1997, Ballot Measure 50 amended the constitution to add a new limit to Oregon's local property tax system
- Measure 50 property tax limit is usually lower than the 1990 Measure 5 limit
- The difference is generally referred to as the tax "gap"
- Measure 50 allowed use of this gap with various restrictions
- School districts – needed legislative approval to use the gap

Before Discussing Local Option, Quick Look at Property Tax Imposed (Education)

District Type	Real Market Value (RMV)			Net Assessed Value (NAV)			Property Tax Imposed			Average Tax Rate (\$/1000)			
										RMV Base		NAV Base	
	FY 2015-16	FY 2016-17	%CH	FY 2015-16	FY 2016-17	%CH	FY 2015-16	FY 2016-17	%CH	FY 15-16	FY 16-17	FY 15-16	FY 16-17
School	506,045,130	559,008,915	10.5	358,817,931	373,337,569	4.0	2,363,237	2,463,908	4.3	4.67	4.41	6.59	6.60
Education Service	506,008,194	558,964,892	10.5	358,784,406	373,300,412	4.0	117,520	122,388	4.1	0.23	0.22	0.33	0.33
Community College	496,491,861	549,241,437	10.6	351,895,768	366,188,649	4.1	233,210	255,869	9.7	0.47	0.47	0.66	0.70

District Type	Permanent Authority			Local Option			Bonds			Total		
	FY 2015-16	FY 2016-17	%CH	FY 2015-16	FY 2016-17	%CH	FY 2015-16	FY 2016-17	%CH	FY 2015-16	FY 2016-17	%CH
School	1,657,960	1,729,050	4.3	155,413	170,418	9.7	549,864	564,440	2.7	2,363,237	2,463,908	4.3
Education Service	117,520	122,388	4.1	0	0	0.0	0	0	0.0	117,520	122,388	4.1
Community College	161,644	168,718	4.4	0	0	0.0	71,566	87,151	21.8	233,210	255,869	9.7

Source: Oregon Department of Revenue, Property Tax Statistics

Inception of Local Option Taxes for Schools: HB 2753 (1999)

- Allowed school districts to seek voter approval of a local option property tax for operational expenses (5-year limit)
- Excluded local option tax from local revenue in the school funding equalization formula
- Made taxes excluded equal to the least of
 - (1) Measures 5 and 50 tax gap,
 - (2) 10% of formula revenue, or
 - (3) \$500 per weighted student (or per extended ADMw)
- Allowed districts to collect less than the full tax approved by voters
- Excess collections over-the-cap flow into the pool of formula revenue

Excluded local option revenue from formula

- **SB 550 (2003)** increased the limits on the amount of local option revenue that are excluded from the definition of local revenues in the formula revenue to the lesser of (1) 15% of the district's formula revenue or (2) \$750 per extended ADMw
- **HB 2641 (2007)** increased limits (1) to \$1,000 per weighted student and (2) to 20% of formula revenue; still the lesser of the two
- **HB 2641 (2007)** also escalated the \$1,000 limit by 3% per year beginning in 2008-09. In 2016-17 the limit was \$1,304.77, and in 2017-18 the limit is \$1,343.92

First Local School Option Tax (Corvallis 509J, 1999)

\$3 million/year levy for 5 years – the first year, ended up imposing \$1.3 million, losing \$1.7 million due to compression; in all five years, imposed \$7 million, compression loss was \$8 million

Since 1999, 75 local school option tax measures passed and 84 failed

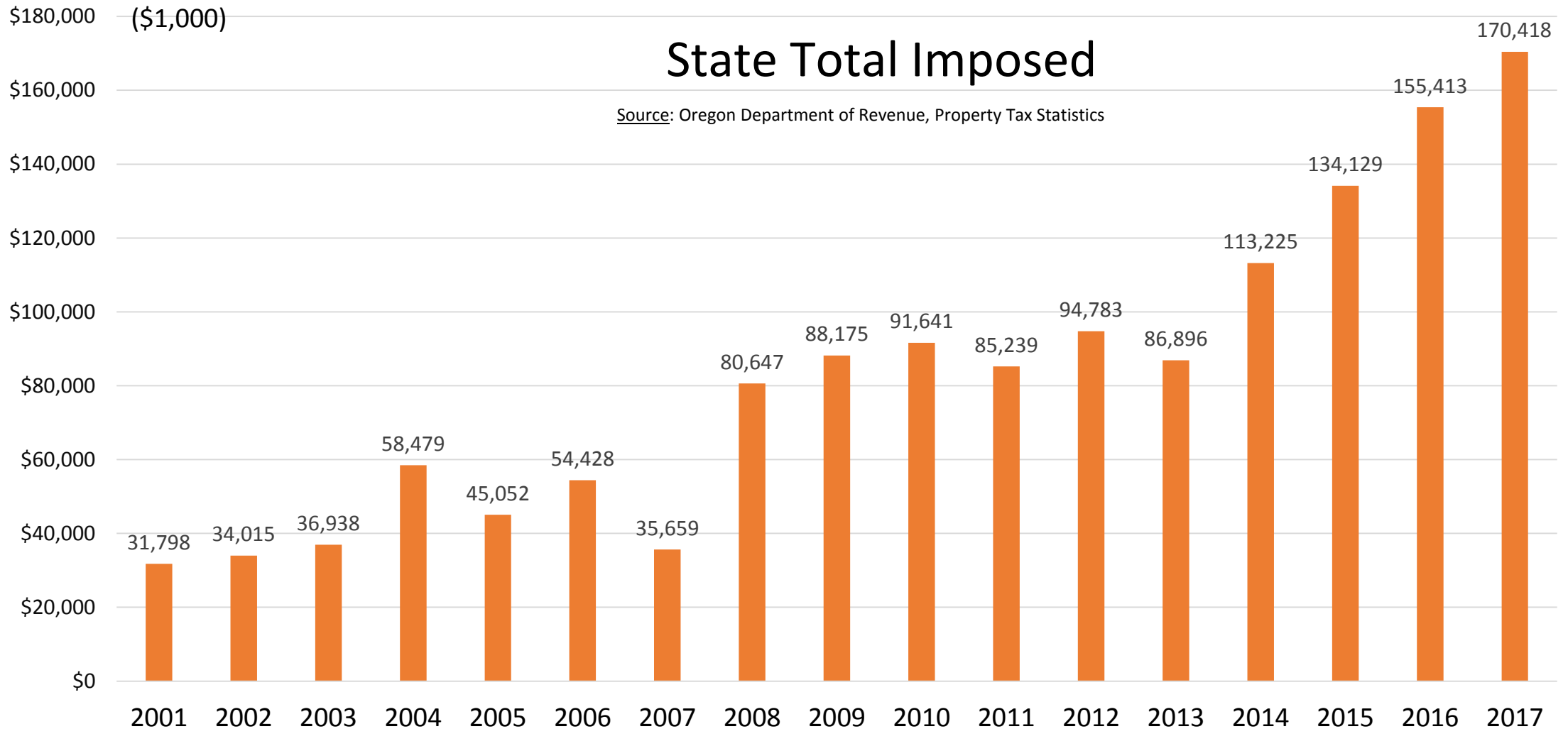
SCHOOL DISTRICT NO. 509J (CORVALLIS)	
Measure No. 02-83	
BALLOT TITLE	help provide a quality education in a safe setting for the children of the Corvallis community.
LOCAL-OPTION SERIAL LEVY QUESTION: Shall the District be authorized to collect a local option tax levy in an aggregate total amount of \$15,000,000? This measure may cause property taxes to increase more than three percent. SUMMARY: This measure may be passed only at an election with at least 50 percent voter turnout. This measure authorizes the District to levy a property tax in the amount of \$3,000,000 each year commencing the fiscal year 2000-2001 for five consecutive years for a total tax levy of \$15,000,000. The taxes would be used to finance district operations, including to continue essential maintenance of school buildings, to reduce overcrowding, to buy materials and textbooks, and to partially restore counseling, music, art and physical education services, and to fund other district operations. If this measure is not approved, the district will face additional significant reductions in staff and services.	How will my property taxes change if I vote yes? Since the passage of Ballot Measure 50, the amount each property owner will pay for tax levies varies, depending on the year their property was assessed and the amount to the assessment. The average net levy cost is estimated to be \$0.78 per \$1,000 of assessed value in the first year. Is this a long term solution? Passage of this ballot measure is only a temporary and partial answer to school funding needs. A full answer will have to come from the state legislature through a policy change in the distribution of state funds.
EXPLANATORY STATEMENT	Submitted by Corvallis School District 509J Kathy Rodeman, Fiscal Manager
<i>Local Impacts of the Levy</i> The money from this tax levy will be used to help fill holes created by several million dollars in cuts at the service level in the district over the past eight years. This levy will allow the district to operate at the same level of services provided in 1998-99. Maintenance: The average age of our schools is 46 years, and buildings district-wide require more and more repairs, including leaky roofs, faulty plumbing and heating and ventilation problems. Many ongoing repairs are being postponed. Providing safe and comfortable facilities are essential for student learning. In addition, in 2000-2001 the district faces a \$1.25 million deficit when our current maintenance bond expires. Unless this levy is approved, the maintenance budget must one again be paid from the districts' general fund, causing substantial cuts in other programs. Even with the passage of this levy, only day-to-day maintenance needs will be addressed. Overcrowding: Currently, some classes in middle and high schools in the district range from 32 to 42 students. Passage of this ballot measure would avoid further increases and reduce the most severe overcrowding. Materials and Supplies: Many classrooms in our district do not have enough textbooks for all students. Materials and supplies have been steadily reduced in all areas in an effort to maintain educational programs. All students deserve adequate, up-to-date materials if we expect them to learn. Staff also need appropriate materials and supplies to do their jobs. What will happen if the levy fails? With current funding levels from the legislature, the district faces more substantial cuts that will reduce staff, increase class size and eliminate programs. Since the passage of Ballot Measure 5, the district lost over 100 classroom teachers and has seen significant reductions in counseling, music, art and physical/education, elective and extra-curricular activities, as well as a loss in funding for needed building maintenance and repairs. Without the tax levy, 509J will continue to see the erosion of essential services and resources that	NO ARGUMENTS FOR OR AGAINST THIS MEASURE WERE FILED.

2016-17 School District Local Option Taxes Imposed: 20 School Districts

School District	Loc Option Imposed
Ashland SD #5	\$3,328,036
Beaverton 48J School	\$29,848,550
Condon 25J School	\$117,943
Corvallis 509J School	\$4,699,502
Crow-Applegate-Lorane 66 School	\$142,379
Eugene 4J School	\$12,321,046
Falls City 57 School	\$79,730
Hood River 1 School	\$2,207,659
Lake Oswego 7J School	\$9,950,576
Morrow 1 School	\$418,238
Pendleton 16 School	\$278,987
Philomath 17J School	\$450,854
Portland Public Schools	\$86,878,829
Riverdale 51J School	\$815,158
Seaside 10 School	\$1,207,973
Sisters 6J School	\$1,156,065
Siuslaw 97J School	\$1,171,662
Sweet Home 55 School	\$187,173
Tigard/Tualatin 23J School	\$8,133,012
West Linn 3J School	\$7,024,839
State Total	\$170,418,211

Source: Oregon Department of Revenue, Property
Tax Statistics

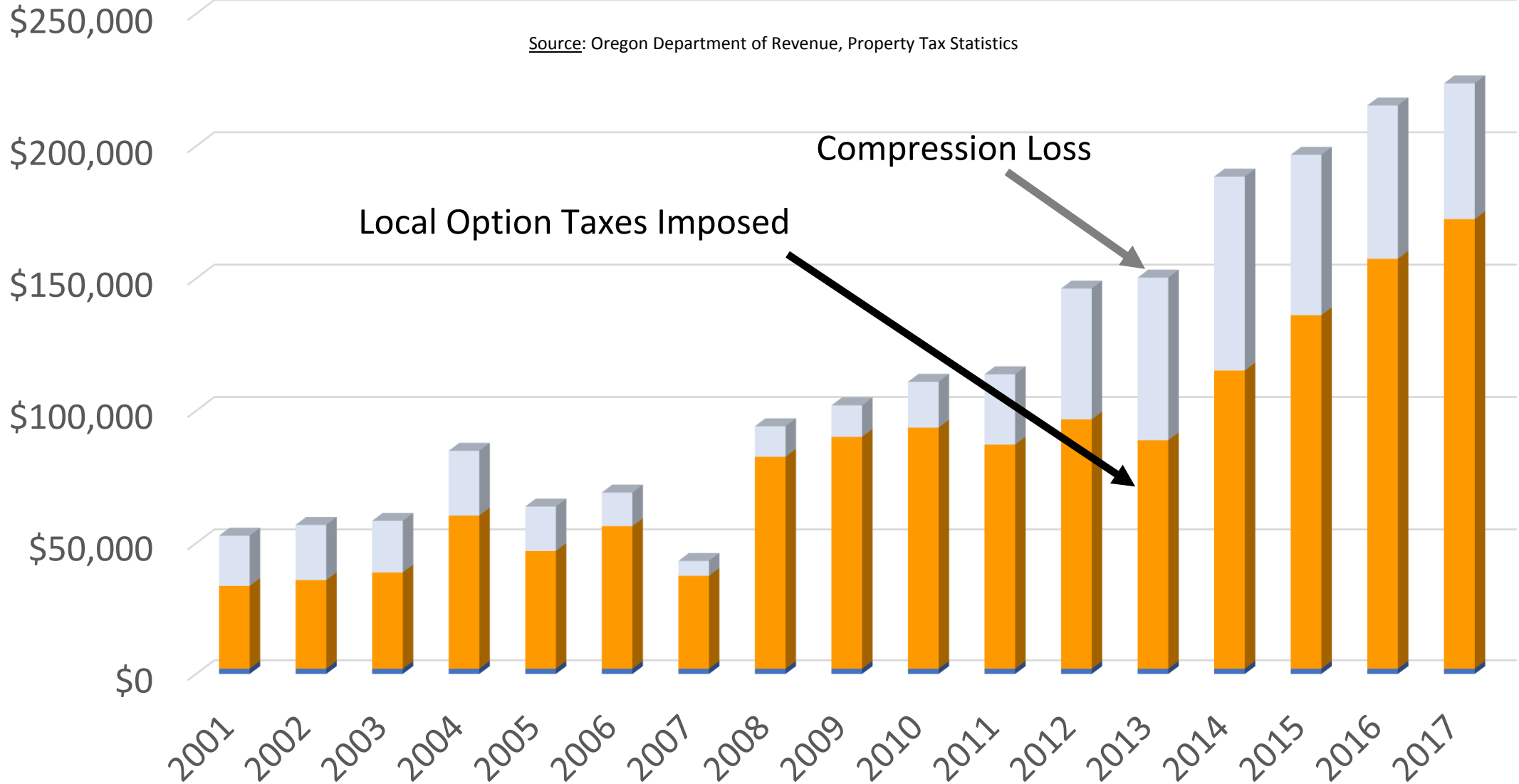
History of Imposed School Local Option Taxes



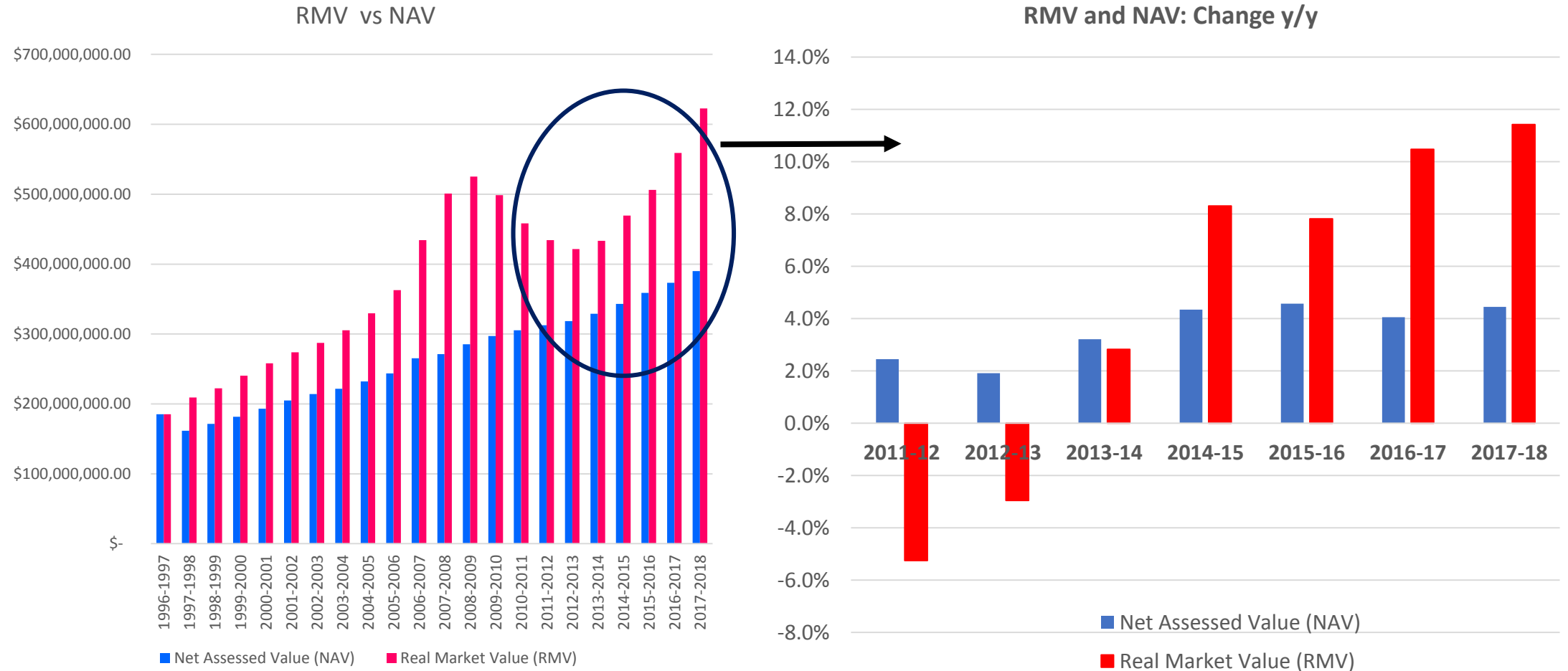
(\$1,000)

Local Option Taxes: Imposed and Compression Losses

Source: Oregon Department of Revenue, Property Tax Statistics



RMV vs. NAV History (State Total) – School Districts



Why Compression Loss?

<u>Local Option Compression</u>				
	Property A	Property B	After compression	Property C
Real Market Value (RMV)	\$100,000	\$100,000	\$100,000	\$130,000
Assessed Value	\$70,000	\$90,000	\$90,000	\$90,000
M50 permanent rate on education	\$5.00 per \$1000	\$5.00 per \$1000	\$5.00 per \$1000	\$5.00 per \$1000
Voter Approved School Local Option Rate	\$1.00 per \$1000	\$1.00 per \$1000	\$1.00 per \$1000	\$1.00 per \$1000
M5 limit on Education (\$5 per \$1,000 RMV)	\$500 <small>=100,000 * 5/1000</small>	\$500	\$500	\$650
Permanent rate tax	\$350 <small>=70,000* 5/1000</small>	\$450	\$450	\$450
Local Option tax	\$70 <small>=70,000* 1/1000</small>	\$90	\$50 <small>compression loss = 90-50=40</small>	\$90
Total Tax	\$420	\$540	\$500	\$540

Permanent Rate and Local Option Compression

	Local Option Approved		If RMV declines a year after	
Real Market Value (RMV)	\$130,000		\$120,000	
Assessed Value	\$95,000		\$97,850	
M50 permanent rate on education	\$5.50	per \$1000	\$5.50	per \$1000
Voter Approved School Local Option Rate	\$1.00	per \$1000	\$1.00	per \$1000
M5 limit on Education (\$5 per \$1,000 RMV)	\$650	(=130*5)	\$600	(=120*5)
Permanent rate tax	\$523	(=95*5.5)	\$538	compression loss = 0
Local Option tax	\$95	(=95*1)	\$62	Compression loss = 98-62 = 36
Total Tax	\$618		\$600	

Permanent Rate and Local Option Compression

		If RMV declines further after two years				If RMV recovers in three years			If RMV rises further in four years			
Real Market Value (RMV)		\$105,000				\$130,000			\$140,000			
Assessed Value		\$100,786				\$103,809			\$106,923			
M50 permanent rate on education		\$5.50 per \$1000				\$5.50 per \$1000			\$5.50 per \$1000			
Voter Approved School Local Option Rate		\$1.00 per \$1000				\$1.00 per \$1000			\$1.00 per \$1000			
M5 limit on Education (\$5 per \$1,000 RMV)		\$525				\$650			\$700			
Permanent rate tax		\$525 Compression loss = 554-525 = 29				\$571 compression loss = 0			\$588 compression loss = 0			
Local Option tax		\$0 Compression loss = 101				\$79 Compression loss = 104-79 = 25			\$107 Compression loss = 0			
Total Tax		\$525				\$650			\$695			

Imposed Property Tax - Schools

School: State Total (\$ millions)

FY	Permanent Rate	% ch	Local Option	% ch	Compression loss	% ch
2011-12	1,438.9	1.9%	94.8	11.2%	74.5	70.2%
2012-13	1,457.7	1.3%	86.9	-8.3%	97.3	30.6%
2013-14	1,504.1	3.2%	113.2	30.3%	110.5	13.6%
2014-15	1,581.1	5.1%	134.1	18.5%	88.1	-20.3%
2015-16	1,658.0	4.9%	155.4	15.9%	82.9	-5.9%
1016-17	1,729.1	4.3%	170.4	9.7%	73.2	-11.6%
2017-18*	1,809.8	4.7%	185.8	9.0%		

*early look

Lessons from Tables and Examples

- Real estate market often lags behind the economy
- Compression applies to local option first and then permanent rate based levy
- In general, as RMV increases, NAV also increases often with lags
- As RMV increases, compression loss declines, also often with lags
- In general, improvement in compression loss (less compression loss) will be felt more sharply in local option levy than permanent rate based levy (unless a total wipeout of local option revenue led to permanent rate based compression, or there was a permanent rate based compression without local option)

About PPS Local Option Tax in 2014

PORTLAND SCHOOL DISTRICT #1JT	
Measure 26-161	
BALLOT TITLE	
<p>Portland Public Schools levy renewal for schools and educational programs.</p> <p>Question: Shall district support schools; redirect funds from urban renewal; levy \$1.99 per \$1,000 assessed value for five years beginning 2015?</p> <p>This measure renews current local option taxes.</p> <p>Summary: PPS' current local option levy was approved by voters in 2011 to provide funding for schools over 5 years. In 2013, the Oregon Legislature ended the diversion of some local option levy revenues to certain urban renewal districts for levies passed after January 2013. Renewal of local option levy will direct approximately \$4 million more to the approved purpose of supporting education, without increasing taxes. The renewed levy will provide \$64.3 million, equivalent to 640 teaching positions.</p> <p>This renewed local option levy would:</p> <ul style="list-style-type: none"> Continue to fund teaching positions; Help to maintain or reduce class size; Support programs for a comprehensive education. <p>Levy cost remains \$1.99 per \$1,000 assessed property value, the same as the 2011 levy.</p> <p>Funds will be placed in a sub-account, and independent citizen oversight will review expenditures to verify that funds are used as approved by voters. This measure would replace the 2011 levy.</p> <p>The levy will produce an estimated \$64.3 million in 2015-2016; \$66.2 million in 2016-2017; \$68.2 million in 2017-2018; \$70.2 million in 2018-2019; and \$72.3 million in 2019-2020.</p> <p>EXPLANATORY STATEMENT</p> <p>Portland Public Schools currently serves over 48,000 students in 85 schools and other programs throughout the neighborhoods of Portland. PPS has set ambitious targets for student success, and, despite years of budget cuts, academic achievement has increased on six of the seven critical milestone measures in the past three years. PPS' overall high school graduation rate has increased 14% in the past four years. PPS enrollment is projected to grow by over 5,000 students in the next decade.</p> <p>In serving the students of Portland, the district continuously strives to be fiscally responsible with taxpayer resources. Through many years of budget cuts, the district and school board have worked to preserve classroom education. At the same time, PPS has advocated for a greater level of state investment by the Legislature and worked to ensure that all dollars raised are spent well by the district and used for educational services for students.</p>	<p>The legislature has recently increased its investment in K-12 education, but state funding for schools remains well short of the amount needed to fully meet the needs of students.</p> <p>Several districts to support on a portion of local option levy funds intended for schools, PPS and other school districts joined with teachers and supporters of social services to advocate for a change. In 2013, the Legislature unanimously approved legislation ending the diversion of funds, ensuring that all revenues from future local option levies will go to support schools as the voters intended. Replacing the existing levy now will allow PPS students to benefit from this change in the law.</p> <p>The renewed local option levy will:</p> <ol style="list-style-type: none"> Fund teaching positions. <ul style="list-style-type: none"> This will help maintain & lower class sizes that permit more individual attention for students; Funds help to support a well-rounded program, with enrichments for elementary and middle grades and electives in varied interest areas and disciplines for high school students; If approved, levy will provide funding equivalent to 640 teaching positions. Continue to provide fiscal accountability and taxpayer oversight: <ul style="list-style-type: none"> This renewal maintains the existing local option levy rate of \$1.99 per \$1,000 assessed value and ensures that all funds raised are directed to the voter-approved purpose of supporting schools; This renewal provides approximately \$4 million more to schools each year without increasing taxes; This local option requires independent citizen oversight to ensure that tax dollars are used only for purposes approved by local voters; Funds will be placed in an sub-account to ensure their correct use and accurate reporting. <p>Since this local option levy replaces the one passed by voters in 2011, Portland Public Schools Board of Education will not collect the final year of the current levy, maintaining the existing tax rate.</p> <p>Submitted by Carole Smith Superintendent Portland Public Schools</p>
<p>NO ARGUMENTS IN OPPOSITION TO THIS MEASURE WERE FILED.</p>	



Portland Public Schools levy renewal for schools and educational programs.

Question: Shall district support schools; redirect funds from urban renewal; levy \$1.99 per \$1,000 assessed value for five years beginning 2015?

This measure renews current local option taxes.

Summary: PPS' current local option levy was approved by voters in 2011 to provide funding for schools over 5 years. In 2013, the Oregon Legislature ended the diversion of some local option levy revenues to certain urban renewal districts for levies passed after January 2013. Renewal of local option levy will direct approximately \$4 million more to the approved purpose of supporting education, without increasing taxes. The renewed levy will provide \$64.3 million, equivalent to 640 teaching positions.

This renewed local option levy would:

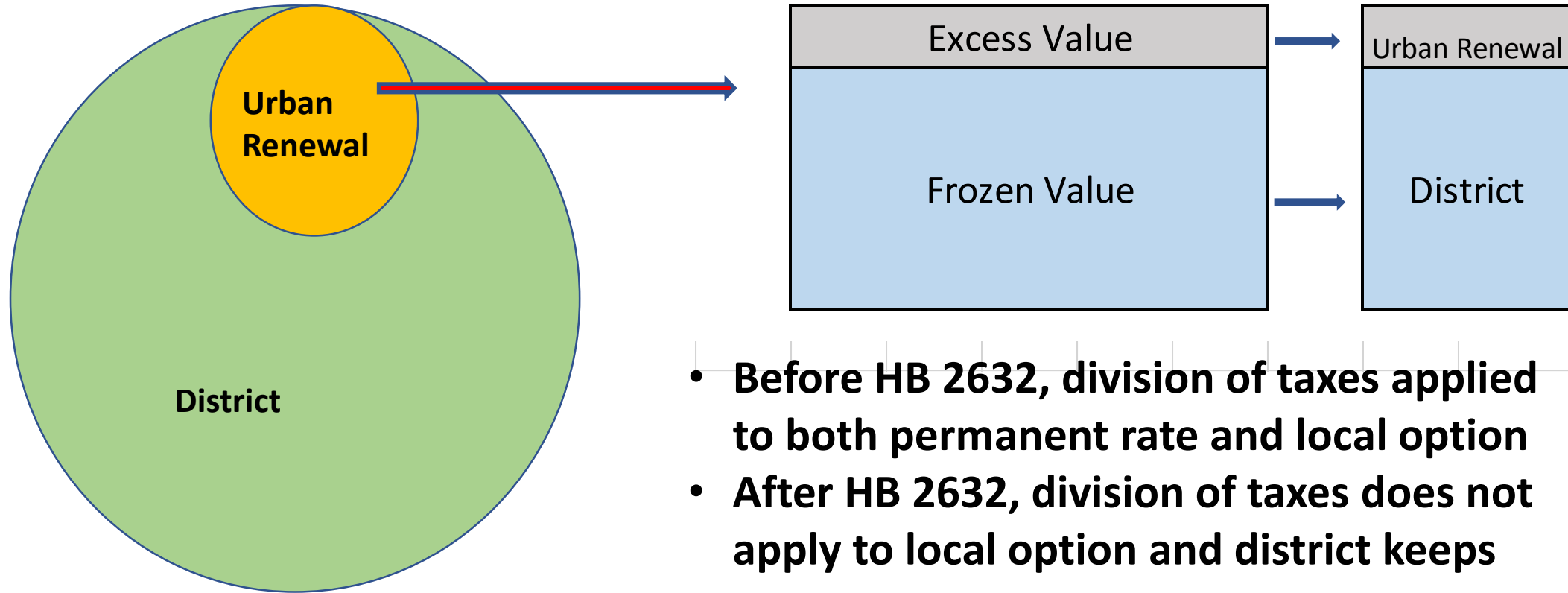
- Continue to fund teaching positions;
- Help to maintain or reduce class size;
- Support programs for a comprehensive education.

Levy cost remains \$1.99 per \$1,000 assessed property value, the same as the 2011 levy.

Funds will be placed in a sub-account, and independent citizen oversight will review expenditures to verify that funds are used as approved by voters. This measure would replace the 2011 levy.

The levy will produce an estimated \$64.3 million in 2015-2016; \$66.2 million in 2016-2017; \$68.2 million in 2017-2018; \$70.2 million in 2018-2019; and \$72.3 million in 2019-2020.

HB 2632 (2013) applies to local options passed after January 1, 2013



- **Before HB 2632, division of taxes applied to both permanent rate and local option**
- **After HB 2632, division of taxes does not apply to local option and district keeps money**

Property Tax Data on Multnomah County

FY	RMV	% ch	NAV	% ch	Compression loss	% ch
2011-12	95,390	-6.1%	57,541	2.8%	80.5	70.6%
2012-13	93,767	-1.7%	58,678	2.0%	100.0	24.3%
2013-14	98,111	4.6%	60,622	3.3%	109.5	9.4%
2014-15	108,209	10.3%	63,519	4.8%	90.6	-17.2%
2015-16	119,611	10.5%	66,142	4.1%	75.5	-16.7%
2016-17	139,376	16.5%	68,832	4.1%	65.4	-13.4%
2017-18*						