STATE OF OREGON

Research Brief

LEGISLATIVE REVENUE OFFICE

143 State Capitol Building
Salem, Oregon   97301

(503) 986-1266

Research Brief #3-10   August 2010

School Property Tax Rates

School Property Tax Rates

This report provides information about the range of tax rates for school districts and education service districts (ESDs). School districts and education service districts have permanent property tax rates for general operating revenue. Tax rates for the repayment of bond revenue are separate and excluded. The permanent tax rates for school districts and ESDs vary significantly from district to district. The rates are fixed as a result of the passage of Measure 50 (a rewrite of Measure 47) in 1997 which amended the state constitution.   A brief summary about how school funding was modified by changes in the property tax system from the adoption of constitutional Measures 5 (1990) and 50 (1997) is provided as background information and may be skipped by those familiar with this recent history.

Property Tax Background

The current school finance system is the legacy of two constitutional property tax measures. Voters approved Measure 5 in 1990 and Measure 50 in 1997. These two measures dramatically changed Oregon's school finance system by limiting property taxes for schools and ESDs. They caused a substantial shift in funding from local property taxes to the state general fund.

Prior to these measures, school districts could ask voters to approve a higher tax base that could grow by 6% a year or approve a higher tax levy for the succeeding tax year. The district tax rate then was calculated as the authorized levy divided by the district real market value (RMV) which was the same as assessed value (AV). A district with high RMV per student could have a low tax rate and generate as much or more property tax revenue per student as a district with low RMV per student and a high tax rate. Also a district with high RMV per student and the same tax rate as a district with low RMV per student could generate higher revenue per student. Tax revenue per student depended not just on the property wealth per student of the district, but also the willingness of voters to support school taxes. This resulted in different levels of funding per student that the

limited state equalization funding did not compensate for very much. Measures 5 and 50 altered this scenario.

Measure 5 (1990) limited property taxes for the operation of school districts, education service districts and community colleges to $5 per thousand dollars of value beginning in 1995-96 after a 5 year phase-down from $15. If taxes exceed the limit, taxes of each district are proportionally reduced by the same percentage to stay within the limit.

In response to the Measure 5 property tax reductions, the 1991 Legislature increased state funding. This Legislature adopted a permanent K-12 equalization formula and initially implemented its phase-in. It also began providing state funds to ESDs to make up a share of property tax losses. By the end of the 5-year tax limit phase-in, the state primarily funded the school system and virtually eliminated local control over school funding.

Ballot Measure 50 in 1997, as a technical fix to Measure 47 in 1996, converted a levy based property tax system to a rate based system. The measure was statutorily implemented by SB1215 passed by the 1997 Legislature. The measure defined a process for converting tax levies to tax rates. The measure switched taxable property values from real market value to a new assessed value, limited the growth of assessed value and replaced variable operating tax rates with permanent operating tax rates. This was generally referred to as a "cut and cap" procedure to initially reduce and then limit the growth of property taxes. The revision provided a broad reduction in property taxes for general operating revenue.

Each school district and ESD has a permanent tax rate from the rate calculation process. District permanent tax rates were calculated using a special formula (black box) that included a variety of conditions and data. This rate is an upper limit and all school districts and ESDs use their full permanent tax rate in the tax levy calculation process (prior to any levy reduction from compression to comply with 1990 Measure 5 limitations). School districts could use a rate below their permanent rate, but there would be no gain in state shared revenue. In the school equalization formula the district property tax revenue would be calculated as though the full permanent rate was extended so there is no incentive to use a rate below the permanent rate.
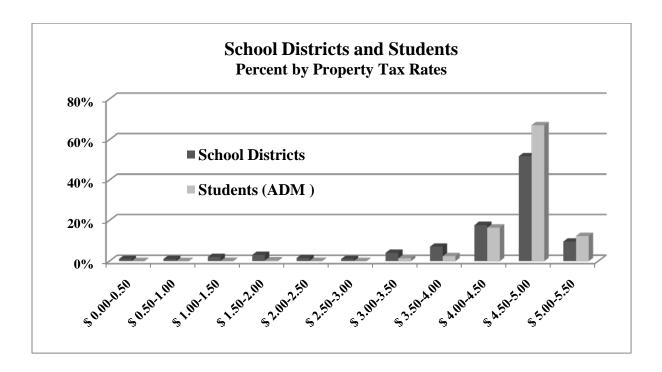
Measure 50 during the 1997 Legislative Session continued the shift to state funding. Measure 50 added another property tax limit more restrictive than Measure 5. Consequently, the 1997 Legislature raised the level of state funding even higher and further modified constraints to the school equalization formula.

With Measure 50 the sum of permanent tax rates for school districts, educational service districts and community colleges can exceed $5 per thousand of assessed value. However assessed value of property is generally much lower than real market value and cannot exceed it. Consequently property taxes for these districts are generally lower than the Measure 5 restriction even when the sum of the permanent rates is higher than $5 per thousand.

State school support via the State School Fund was less than 30% of both the State School Fund and local formula revenue in 1990-91 and increased to about 70% in 1999-00 to compensate for reduced property taxes. State funding is currently about 67%. Beginning in 2006-07, the K-12 school share of this state and local formula revenue is 95.25% and the ESD share is the remaining 4.75%.
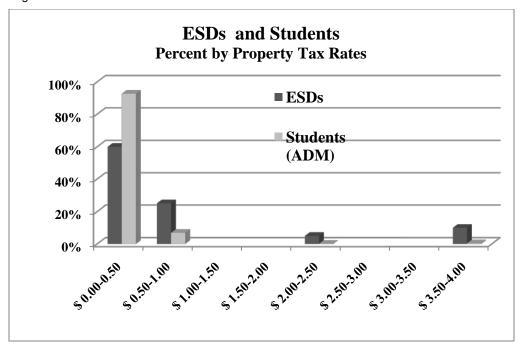
School District Tax Rate Distribution

School district permanent property tax rates range from $0 to about $5.50 per thousand dollars of assessed value for the 197 school districts. However districts are concentrated at the high end of the range as illustrated in the chart below. Almost 70% of school districts (137) have a rate between $4.00 and $5.00 per thousand. Half the districts with 83% of the students measured by average daily membership (ADM) have rates between $4.00 and $5.00. About 10% of school districts (19) with 12% of students are above $5.00, 11% (22) with about 4% of students between $3.00 and $4.00 and the remaining 10% (19) with 0.4% of students are below $3.00. Two districts, Ashwood 8 in Jefferson County and Frenchglen 16 in Harney County, have a zero tax rate. Districts with low rates tend to be small districts with ADM of less than 1,000. The four districts with rates below $1.00 have fewer than 6 ADM each. The state average school district permanent rate is $4.64 per $1,000 of assessed value.

School Districts and Students
Percent by Property Tax Rates

ESD Tax Rate Distribution

Unlike school districts, ESDs are concentrated at the low end of the tax rate range. ESD rates range from more than $0 to less than $4.00 per thousand dollars of assessed value. Twelve of the twenty ESDs or 60% with almost 93% of students (ADM) have a tax rate of less than $.50 per thousand dollars of assessed value. Another 25% (5) with almost 7% of students have a rate between $0.50 and $1.00. One district (5%) is in the $2.00 to $2.50 category and two (10%) are in the $3.50 to $4.00 category. These three high tax rate ESDs have less than 0.5% of students.

ESDs and Students
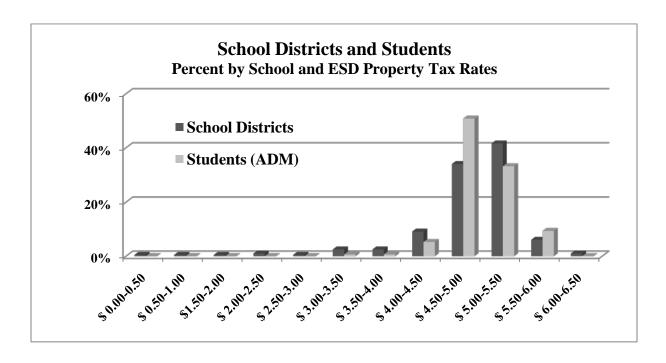### Percent by Property Tax Rates

Historically ESDs have had low tax rates except for a few. The three high tax rate ESDs in the past served an additional function that the other 17 ESDs did not. County wide education districts once served a property tax equalization function. The county district levied property taxes that were shared with school districts within the county more equally per student than the distribution of property valuations per student. With the formation of Intermediate Education Service Districts (1963-1977), only four ESDs in eastern Oregon continued to provide revenue equalization under the old rural ESD law. The four ESDs were Grant, Harney, Wallowa and Wheeler. Only Harney ESD now has a rate less than $1.00 and Wheeler is currently part of North Central ESD.
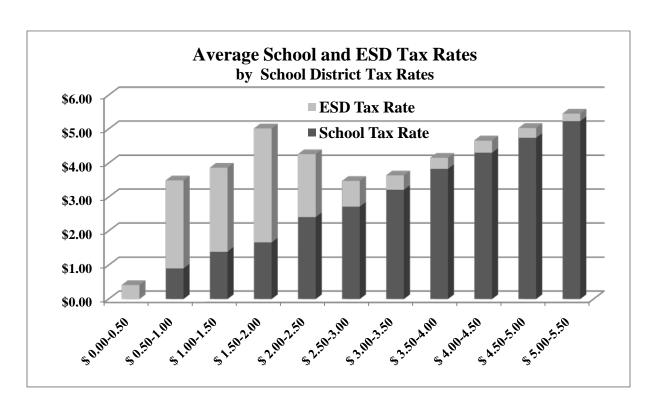
The high ESD rate is mostly offset by the school districts in these three ESDs having low school district rates. One consequence of this is that these school districts receive a higher level of state support from the state school equalization formula. The three ESDs qualify for the $1 million minimum state and local funding in the ESD distribution formula. This gives these ESDs a high level of revenue per student. The three ESDs have local formula revenue of more than the $1 million formula minimum and must share their excess local revenue with their component school districts which helps reduce their level of state support.

Combined Tax Rate Distribution

The combination of the school and ESD tax rates is a better gauge of the property tax rate for K-12 education services. The rates are still skewed to the high end of the range, but in smaller percentages. Refer to the chart on the next page. The combined rate puts 75% (149) of the 197 school districts with 84% of students in the $4.50 to $5.50 tax rate range. Note that two more categories--$5.50 to $6.00 and $6.00 to $6.50-- have to be added to the scale with the inclusion of ESD rates. The added categories contain 7% (14) of the school districts with over 9% of the students. Also with the addition of ESD rates, all school districts have a tax rate for education and the $1.00 to $1.50 rate category is empty. The two school districts with $0 tax rates have ESD rates below $1.00 and remain at the low end of the rate brackets. There are only 6% of districts with less than 1% of students in the left half of the chart with rates up to $3.50.

School Districts and Students
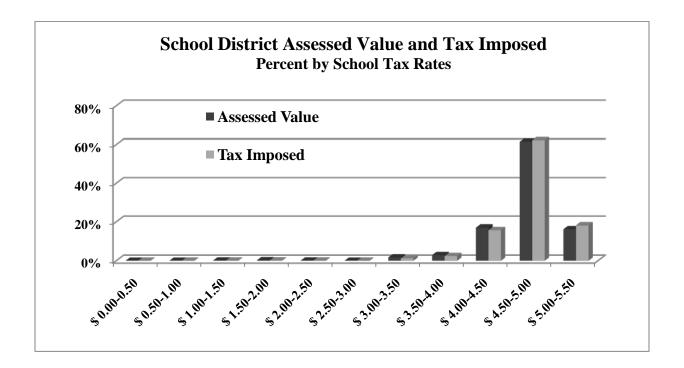**Percent by School and ESD Property Tax Rates**

Looking at just the rates alone rather than percentages of school districts or students in each tax rate category presents a different picture. A more balanced tax rate distribution occurs from the combination. The chart shows how high ESD tax rates tend to compensate for low school tax rates. The average school district tax rate is $4.64 and the average ESD rate is $0.33 for a combined average permanent rate of $4.97 per thousand dollars of assessed value.

Average School and ESD Tax Rates
by School District Tax Rates

Property Value Distribution

School and ESD permanent tax rates apply to net assessed value (AV). Real market value (RMV) is equal to or greater than assessed value. Measure 50 (1997) defined the share of real market value that is assessed value. The assessed value of taxable property since 1997-98 is basically its 1995-96 real market value reduced by 10% and then increased by no more than 3% per year. New property value added since 1997-98 is indexed at the same percent of real market value as existing property value within the same class of property.

The distribution of assessed value by tax rates shows that 61% of assessed value is taxed at rates between $4.50 and $5.00. Only 5% of AV has a rate below $4.00 and the remaining 34% is about evenly split between $4.00-$4.50 and $5.00-$5.50.
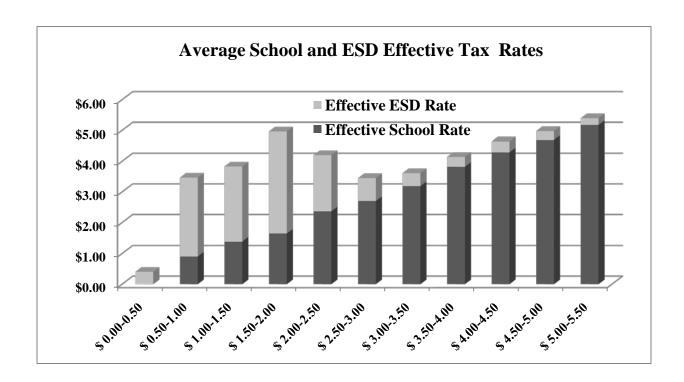

Effective Tax Rates

School permanent tax rates are rates not adjusted for the Measure 5 (1990) tax limit. The sum of school district, education service district and community college tax rates (excluding bonds) cannot exceed a tax rate of $5.00 per $1,000 of real market value, not assessed value. If the taxes from permanent rates exceed this limit, taxes are proportionately reduced or compressed to add up to an equivalent $5.00 rate.

The school district effective tax rate is calculated as the tax imposed after compression divided by net assessed value. This is an average since the tax limit applies to individual properties, not districts. Compression can be different within a school district, for example, if the district is overlapped by two community college districts with different rates. Compression can also be different for two properties within the same tax districts with the same rates if one is constrained by the tax limit on real market value and the other is not. Compression reduces the variation in

permanent tax rates by decreasing higher rates to lower effective rates that can still be above $5.00 when applied to assessed value, but not real market value. The tax reduction due to compression was $30 million (-1.5%) in 2009-10 for school districts and $1 million (-1%) for ESDs. The distribution of imposed tax after compression is very similar to assessed value.

The last chart shows that the combined average effective tax rates for school districts and ESDs are little changed from that for permanent tax rates. The largest difference is almost 7 cents. This appears small but is the average over a whole group of districts in a tax rate range and not just the individual properties in the group that have tax compression.

School Districts and Taxpayers

Differing school property tax rates and district assessed value per student yield various amounts of property tax revenue per student. This local school tax revenue is used in the school equalization formula and plays an important role in determining how much state support school districts and ESDs receive. The equalization formula allocates the sum of both state and local school revenue about equally per student based on four different grants. State School Fund dollars counterbalance the differences in local revenue per student. Thus if local revenue per student is high, State School Revenue per student is low and vice versa. The result is that individual school districts are not very dependent on the property tax system and may not feel directly impacted by its rate and taxable value structure. Taxpayers on the other hand are directly affected by the differences in school and ESD tax rates and differences in assessed value for similarly situated properties with equivalent market values.