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Research Report

Research Report #4-04 **August 2004**

SCHOOL LOCAL OPTION PROPERTY TAX

Legislation And Utilization

OVERVIEW

In 1997 Ballot Measure 50 amended the constitution to add a new limit to Oregon's local property tax system. The Measure 50 property tax limit is usually less than the 1990 Measure 5 limit. The difference is generally referred to as the tax "gap". Measure 50 allows use of this gap with various restrictions. School districts required Legislative approval to use the gap.

The 1997 Legislature approved school use of the gap for a voter approved local option property tax not to exceed $250 per weighted student with a 2003 deadline for district elections. However, the Legislature made implementation conditional on voters not passing a $150 million education lottery bond for capital needs. Voters approved the bond so the local option did not take effect. The 1999 Legislature revisited the issue and passed a local option for schools.

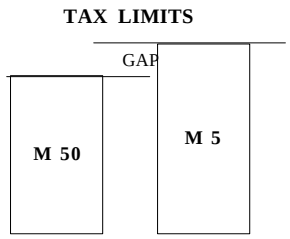
Since adoption, 51 school districts have voted on 64 levies and passed 21. In 2003-04 17 are being levied. When a local option levy passes, the property tax revenue is excluded from school distribution formula local revenue up to a limited amount so that state aid is not reduced. The exclusion limit is currently the lower of $750 per student (weighted) or 15% of district formula revenue. Local option revenue cannot exceed the tax gap so this can be an even lower limit.

The local option equalization grant, authorized by the 2001 Legislature, provides additional state revenue to local option districts with low assessed value. Revenue is equalized up to what could be generated by the target district using the same local option tax rate. The target district by definition has assessed value per student (weighted) at the 75th percentile level. The 25% of districts with assessed value per student greater than the target district are not eligible.

The first part of this report describes the various conditions for a local option levy and the amount excluded from school formula local revenue. The second part discusses the election history of local option votes. The next section shows the amount of local option revenue collected by districts for two years and the distribution of equalization grants by district.

CURRENT LAW

SPECIAL TAX LEVY



A local option tax levy is a special levy subject to many conditions. It is often referred to as a "gap" levy because it can fill the gap between the Measure 50 tax limit and the Measure 5 tax limit. A local option levy is in addition to Measure 50 taxes, but Measure 50 taxes plus any local option taxes cannot exceed the Measure 5 tax limit.

The school tax gap is $5/$1000 times real market value (Measure 5 limit) less the sum of the permanent rates for school, educational service district and community college times assessed value (Measure 50 limit). Real market value is greater than or equal to assessed value so the Measure 5 tax limit is generally higher than the Measure 50 tax limit even if the education permanent rate is above $5. However, if the Measure 50 tax is more than Measure 5, the rates are proportionally compressed to not exceed the Measure 5 limit and there is no gap. These calculations are on a property by property basis.

Constitutional Restrictions

Measure 50 includes constitutional restrictions to all property tax levies making use of the gap between Measures 50 and 5 tax limits. The restrictions apply to eligible districts, elections, and length (Article XI, Section 11 (4) and (8)).

- School districts may not impose a local option without legislative approval.
- A majority of voters must approve taxes above the Measure 50 limit.
- A majority of registered voters eligible to vote must vote in any election except a November general election.
- An operating levy cannot exceed 5 years.
- A capital levy cannot exceed the lesser of 10 years or the expected useful life of the capital project.

Statutory Restrictions

ORS 280.040-.145 adds several statutory restrictions to the constitutional restrictions and also incorporates some constitutional restrictions into the statutes. The statutory restrictions include:

- Levies for more than a year (serial levies) must be either for
  (1) a fixed (uniform) dollar amount each year or
  (2) the same tax rate each year.

- If a rate serial levy raises more than estimated, the excess revenue is carried over to the next fiscal year.
- Capital projects with life of more than 5 years must be voted on separately from all other local option levies.
- Capital projects include buying land, improvements, construction, installation of integral machinery and equipment and furnishings or equipment with a useful life of at least one year.

- Local option taxes may be pledged to repay bonds and voter approval of the local option is approval to issue bonds.
- The election resolution must contain the purpose for the local option, total cost, and number of levy years.
- More than one serial levy can be voted on at the same election, but not more than 4 serial levies may be voted on in a calendar year.
- The ballot must state that approval can increase taxes more than 3 percent.

EXCLUSION FROM FORMULA LOCAL REVENUE

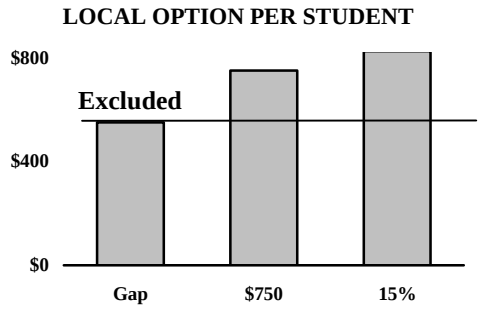
Formula Local Revenue

Formula revenue refers to both local revenue and State School Fund dollars. Formula local revenue is primarily school district property taxes, but also includes revenue from federal timber, the Common School Fund, County School Funds and other minor sources. These sources are identified in the school formula. Revenues from these sources make up the local contribution to the total dollars allocated by the formula to the district.

Exclusion Limits

Local option property tax revenue is not included in school formula local revenue up to a limited amount. Any local option revenue above the limit is included in formula revenue and reduces state aid to the district. Legislation in 2003 (SB550) increased the limit for the exclusion to its current level. The exclusion is the lesser of two limitations:

- 15% of school distribution formula revenue (state and local)
- $750 per weighted student (ADMw)



Local option revenue cannot exceed the gap amount so the excluded local revenue for a district is the lesser of (1) the gap, (2) 15% of formula revenue, or (3) $750 per weighted student. Currently the gap is the limiting factor for most districts

Local Option Exceeds Exclusion Limits

If the gap is large enough, local option taxes can be more than the exclusion limits, but schools have no incentive to do this. Any revenue above the exclusion does not directly benefit the school district. If the gap is large enough and voters approve a local option that exceeds the 15% or $750 limits, then the amount above the exclusion limit, if collected, would become part of local revenue utilized by the school formula. The extra district local revenue included would decrease the district's State School Fund dollars. These State School Fund dollars in turn will be allocated to all other school districts. In effect any local option revenue above the 15% or $750 limits will be shared with all other school districts by how the formula distributes State School Fund dollars.

When a local option levy estimate indicates the exclusion limit may be exceeded, a district can levy less than its voter approved local option dollar amount or impose a tax rate lower than the approved rate to avoid exceeding the limit.

Excludes Tax Received

The local option exclusion from formula local revenue is the amount of taxes actually received by the district, not a tax levy amount. A local option within the gap could potentially be levied higher than the exclusion limit, but tax revenue received be less than the exclusion limit. The discount up to 3% for early payment and delinquencies reduce revenue received. Payments for prior year delinquencies increase revenue received.

Exclusion Growth

Over time the gap will grow if real market value increases faster than assessed value. Refer to Research Report #5-99 for a discussion of gap growth. As school funding per student increases over time as well, the 15% limit per student will also grow. The average 15% limit estimate is $760 per weighted student in 2004-05. Both the gap and the 15% limit will likely grow faster than the percentage increase in number of students. This means that in the future the $750 limit per weighted student is likely to apply in most cases. Legislative changes to the student weighting system or the exclusion limits may alter this expected result.

Multiple Local Options

The revenue excluded from formula local revenue does not have to be from one local option. A district may ask voter approval for multiple local options over several years. These may overlap. A district may seek separate voter approval for different projects. If the gap is the initial constraint, then as the gap grows subsequent local options could be approved within the exclusion limits. However, the sum of local options imposed each year cannot exceed the tax gap for that year.

EQUALIZATION

Equalization Formula

In 2001 the Legislature created a local option equalization grant for eligible school districts levying a local option property tax. Districts with an assessed value per student less than the target district are eligible. Districts are ordered by assessed value per student. By definition the district with assessed value per student greater than or equal to 75% of the districts and less than 25% of the districts is the target district. Thus 75% of the districts are eligible for equalization grants.

The equalization grant guarantees a district the same local option revenue as the target district would get using the same local option tax rate. The grant is equal to the difference in revenue that could be levied by the target district and that levied by the district using the district's local option tax rate. It does this by equalizing assessed value (AV) per student (weighted) at the target level. The difference between the target and district assessed value times the number of weighted students gives the total difference in assessed value. The equalization grant is the district local option tax rate times this difference in assessed value. The equalization calculation uses property and student data from the prior year. The local option tax rate is the current year rate for taxes imposed after compression.

District Equalization Grant	=	Local Option Tax Rate	X	Weighted Students	X	(Target Assessed Value Per Student	-	District Assessed Value Per Student)

If voters approve a local option during the same biennium in which it is first imposed, the grant payments are delayed till the next biennium. This is to allow the Legislature to make an appropriation that reflects the estimated grants based on already passed local option levies. If grants exceed the appropriation level, grants are proportionally reduced. Estimated grants are made prior to March 31 and subsequently adjusted to the actual amount.

ELECTION RESULTS

Districts Having Elections

Since 1999, 51 school districts have held 64 local option elections. Most districts holding elections have only held one election. Eleven had two elections and one has held three elections. Districts having elections are 26% of total districts.

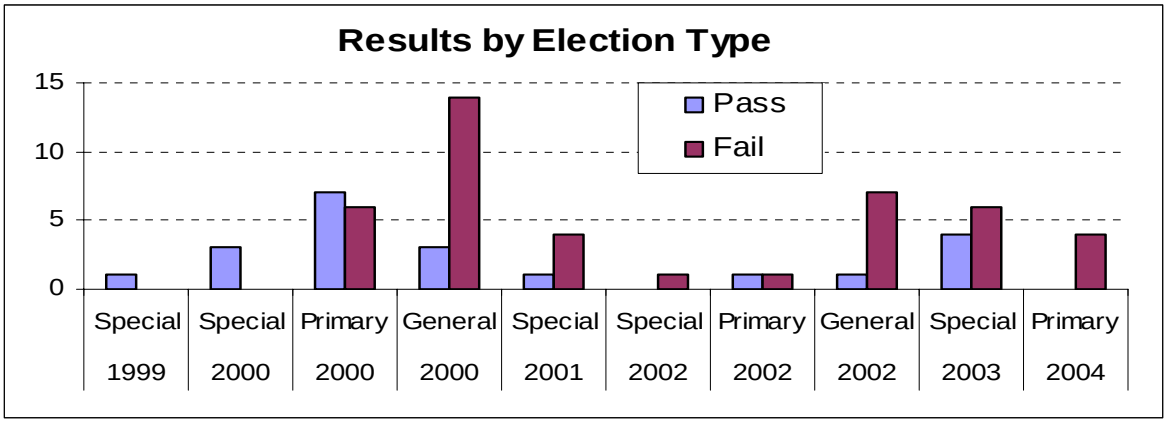
Elections per District	Districts	Elections
1	39	39
2	11	22
3	1	3
	51	64

Election Turnout and Dates

Local option votes in special and primary elections require a 50% voter turnout for a local option ballot to pass. Votes in general elections do not require a 50% voter turnout for passage. Local option votes can be held on any of the four elections dates each year. Special elections can be held in March, May, September and November in odd numbered years and in March and September in even numbered years. The May primary and November general elections are the other two dates in even numbered years.

Election Outcomes

- The number of elections and the success rate has varied dramatically from year to year over the past six years. In the first year only one district asked voters to approve a local option and it was successful for a 100% passage rate. So far in 2004, 4 districts have a 100% failure rate with a special and general election to follow. To date the overall success rate is 33% with 21 ballots passing and 43 failing.



- General elections were not the most successful election date for passage. Special and primary elections requiring a 50% voter turnout have been the more successful with a 44% passage rate. Given that general elections do not require a 50% voter turnout, the passage rate might be expected to be higher than for special elections. This has not been the case for either the 2000 or2002 general elections. The passage rate was 18% and 13% respectively. This may be due to voter reaction to declining economic conditions at the time.

By Year by Election Type

Year	Type	# of Elections	Pass		Fail		Cause of Failure		
			#	%	#	%	Vote	Turnout	Both
1999	Special	1	1	100%	0	0%	0	0	0
2000	Special	3	3	100%	0	0%	0	0	0
	Primary	13	7	54%	6	46%	3	0	3
	General	17	3	18%	14	82%	14	0	0
2001	Special	5	1	20%	4	80%	0	3	1
2002	Special	1	0	0%	1	100%	0	0	1
	Primary	2	1	50%	1	50%	0	0	1
	General	8	1	13%	7	88%	7	0	0
2003	Special	10	4	40%	6	60%	4	0	2
2004	Special Primary General	4	0	0%	4	100%	3	0	1
All Years	Special	20	9	45%	11	55%	4	3	4
	Primary	19	8	42%	11	58%	6	0	5
	General	25	4	16%	21	84%	21	0	0
	Total	64	21	33%	43	67%	31	3	9

Source: Oregon School Boards Association website

- The primary cause of failure has been voters rejecting the ballot, not a lack of voter turnout. Of the 43 ballots defeated, 31 or 72% were because a majority of voters voted no. Only 3 failed because of low turnout alone and 9 because both turnout was too low and voters rejected the ballot.

- Most of the ballots passed in 2000. Out of the 21 total, 13 or 62% passed that year with 10 being before the fall general election and before the economy started showing much weakness. The maximum length for general operating expenditures is 5 years. Assuming that these local option levies were first levied in 2000-01 means that they will end in 2004-05 at the latest. If districts want to renew they will be probably be asking voters at the 2004 general election or at special elections during 2005.

By Student Size

ADM	# of Districts *	Pass		Fail		Cause of Failure		
		#	%	#	%	Vote	Turnout	Both
Small: Below 1,000	19	10	53%	9	47%	8	0	1
Medium: 1,000-5,000	25	4	16%	21	84%	13	3	5
Large: Above 5,000	20	7	35%	13	65%	10	0	3

*Counts districts with multiple elections more than once.

- Smaller districts (measured by student size) had a better success rate than larger districts. Districts with less than 1,000 students passed 53% of their local option ballots while large districts with over 5,000 students passed 35%. Intermediate sized districts passed only 16%. This result may be connected to the property or income wealth of the districts asking voters to approve a local option versus those that didn't try.

- Districts with high assessed value per student have the highest passage rate. Districts with over a half million dollars of taxable property value per student passed 67% of their local option ballots. However, districts with low value per student passed 20% of their ballots compared to only 11% for the intermediate districts.

By Assessed Value per Student

AV per ADM	# of Districts	Pass		Fail		Cause of Failure		
		#	%	#	%	Vote	Turnout	Both
Low: Below $250,000	5	1	20%	4	80%	2	1	1
Medium: $250-$500,000	35	4	11%	31	89%	22	2	7
High: Above $500,000	24	16	67%	8	33%	7	0	1

*Counts districts with multiple elections more than once.

REVENUE

Local Option Revenue

The table (pages 7-8) provides local option revenue for two years. Using local option property tax data for levies extended (before Measure 5 compression) and actual school receipts allows the calculation of a ratio between (1) taxes collected and (2) taxes extended by districts. Districts on average collect almost 2/3 of the tax extended but the ratio varies widely by district. The difference between extended and actual collection is (1) primarily due to compression to be under the Measure 5 limit and (2) also to taxpayers being delinquent in paying their tax.

Revenue by Year by Student Size

Year	School District	Tax		Collection	
		Extended	Collected	Ratio	per ADM
2001-02	HELIX 1	45,286	3,323	7.3%	20
	CROW-APPLEGATE-LORANE 66	227,793	93,343	41.0%	282
	RIVERDALE 51J	242,294	155,118	64.0%	342
	COLTON 53	184,049	74,120	40.3%	100
	SISTERS 6	749,621	682,714	91.1%	605
	SEASIDE 10	932,899	714,576	76.6%	437
	PENDLETON 16	541,925	286,971	53.0%	86
	LAKE OSWEGO 7J	4,533,600	3,991,378	88.0%	580
	CORVALLIS 509J	3,070,748	1,202,167	39.1%	173
	WEST LINN 3J	5,283,168	1,999,426	37.8%	267
	TIGARD 23J	5,416,678	3,657,395	67.5%	325
	EUGENE 4J	12,702,562	NA		

	PORTLAND 1J	20,991,538	14,879,270	70.9%	309
	Total excluding Eugene 4j	42,219,599	27,739,799	65.7%	342

Year	School District	Tax		Collection	
		Extended	Collected	Ratio	per ADM
2002-03	HELIX 1	45,286	2,779	6.1%	16
	CROW-APPLEGATE-LORANE 66	235,399	75,625	32.1%	256
	RIVERDALE 51J	256,180	246,262	96.1%	520
	OAKLAND 1	69,184	23,330	33.7%	42
	COLTON 53	191,514	96,939	50.6%	127
	SISTERS 6	795,367	734,698	92.4%	617
	SEASIDE 10	932,979	720,181	77.2%	438
	PENDLETON 16	541,972	285,685	52.7%	87
	CORVALLIS 509J	3,000,675	1,407,952	46.9%	205
	LAKE OSWEGO 7J	4,308,609	3,934,631	91.3%	573
	WEST LINN 3J	5,621,041	3,058,074	54.4%	405
	TIGARD 23J	5,713,434	4,083,884	71.5%	357
	EUGENE 4J	13,094,392	4,843,658	37.0%	270
	PORTLAND 1J	21,621,620	16,263,204	75.2%	346
	Total	56,427,652	35,776,902	63.4%	337

Source: Department of Education database and Department of Revenue property tax statistics.

The collection per student using ADM averages over $300. The range however again is very wide with the highest per student amount being over 30 times the lowest. The per student level depends on the (1) amount or rate approved by voters and (2) the size of the tax gap and tax compression to be within the Measure 5 limit for each property.

In 2003-04 17 districts levied a local option. This year is not included in the table because the tax collected is not yet available.

Equalization Revenue

Few districts qualify for local option equalization grants from the state. This indicates that not many districts with low to moderate assessed value per student have passed local options. The target assessed value per student is above $300,000 so only districts below this amount qualify. So far equalization grants per student are relatively small. The grants total about $600,000 for the past 3 years.

Equalization Grants			
Year	**District**	**Grant**	**Per ADM**
2001-02	Colton 53	$ 32,408	$44
	Pendleton 16	166,601	50
2002-03	Oakland 1	$ 7,494	$13
	Colton 53	39,648	52
	Pendleton 16	154,689	47
2003-04	Sherman 1	$ 293	$ 1
	Oakland 1	11,288	20
	Colton 53	38,800	53
	Pendleton 16	145,325	45
	Total	$596,546	

Source: Department of Education

Related Report

"School Local Property Tax Option: 1999 Legislation," Research Report #5-99.