Calculating the Permanent Tax Rates

The most dramatic change made by Measure 50 was the replacement of most tax levies with permanent tax rates.[6] The permanent rates were calculated for the 1997–98 tax year and become fixed: they do not change in later years. Figure 2 shows how the permanent rates are calculated. The steps are discussed in more detail below.

In the first year of Measure 50 (the 1997–98 tax year), tax rates for each district were calculated much as they were under Oregon's old property tax system: the total amount of taxes to be collected divided by the assessed value of the district. Prior to the rate calculation, however, Measure 50 made two significant changes: it cut the amount of tax to be collected, and it reduced the assessed value of property in each district. After the calculation, the resulting rates became permanent and do not change from year to year. For the 1997–98 tax year, roughly 84 percent of taxes imposed by taxing districts are from the permanent rates. The remaining 16 percent are from temporary levies: local option levies and exempt bonds (see the table below). For these temporary levies, tax rates are re-calculated each year.

While the permanent rate calculation is relatively simple, the calculations required to determine the amount of tax to be collected are very complex. The complexity stems from the fact that Measure 50 defines seven different types of levies and treats each levy differently. Some levies are subject to both the constitutional and supplemental cuts, some are subject only to the supplemental cut, and some are subject to no cuts at all. Further, certain levies do not become part of the permanent tax rate but instead have their own, temporary rates. Finally, not all levies are subject to the Measure 5 rate limits, and local option levies are treated differently by Measure 5 from other levies.[7] As the table below shows, over three quarters of all levies fall in the "regular" category.

Types of Levies Defined by Measure 50

(Dollars in Millions)

Type of Levy	Tax Before Cuts	Subject to Constitutional Cut?	Subject to Supplemental Cut?	Part of Permanent Rate?	Subject to Measure 5 Rate Limits?	Tax After Cuts
"Regular"	$2,154.6	Yes	Yes	Yes	Yes	$1,820.9
100%	$100.1	No	Yes	Yes	Yes	$98.3
Rural Hospital	$6.3	No	No	Yes	Yes	$6.2
Gap Bond	$16.2	No	No	Yes*	Yes	$15.8
Pension	$53.7	No	Yes	Yes*	Yes	$52.5
Local Option	$23.0	No	No	No	Yes	$22.6
Exempt Bond	$358.9	No	No	No	No	$358.9

* Gap bond and pension levies initially have separate tax rates, but when the obligations for which they are dedicated are paid off, their rates are rolled into the permanent rate.

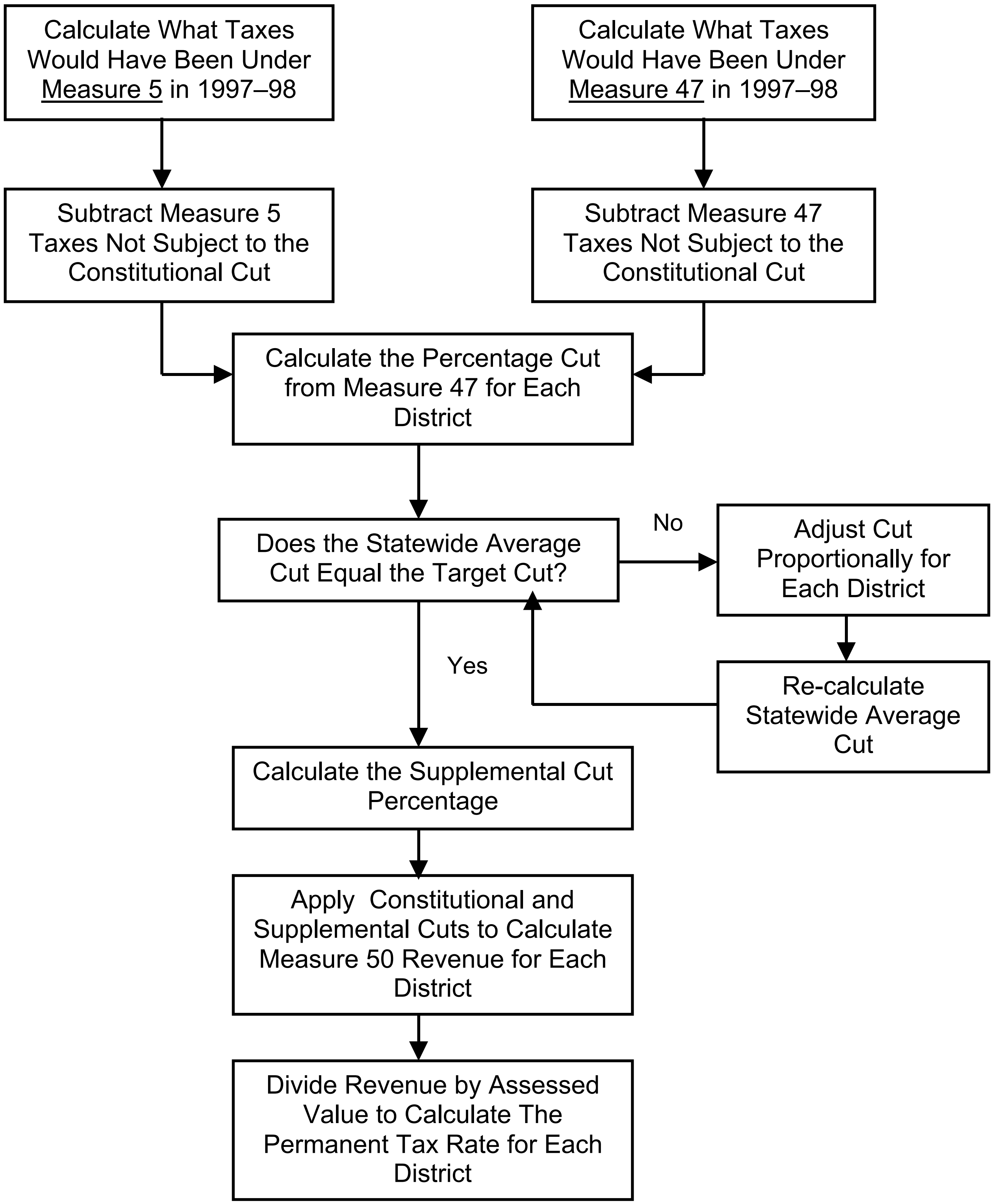
Note: Does not include taxes allocated to urban renewal agencies.

[6] In strictly legal terms, the permanent rates are rate **limits**, so districts can choose to impose a rate that is less than their permanent rate. In practical terms, since the permanent rates raise less revenue than did the pre-Measure 50 system, few districts are likely to impose a rate that is less than their permanent rate limit.

[7] For an individual property, if the effective tax rate on <u>real market value</u> exceeds the Measure 5 rate limit, local option levies, if they apply to the property, are reduced before any other levies are reduced. Other levies are reduced only if the local option levy is reduced to zero.

Figure 2

Calculating the Measure 50 Permanent Tax Rates



The Measure 50 Rate Calculation Started With Measure 5 and Measure 47 Taxes

Measure 50 required that 1997–98 taxing district revenue be cut an average of 17 percent compared to what revenue would have been under Measure 5. It also required that if growth due to new construction over the 1995–96 to 1997–98 period exceeded 4 percent, then the 17 percent would be reduced so that local governments could realize some revenue from that rapid growth. Because growth from new construction over the two-year period was about 10 percent, the constitutional cut was reduced to 13.2 percent.

Measure 50 also required that, for individual districts, the revenue loss resulting from Measure 50 be proportional to the revenue loss the district would have had under Measure 47.[8] This means that to calculate the permanent rates that apply under Measure 50, it was first necessary to calculate what revenue would have been both under Measure 5 (i.e., the pre-Measure 50 system) and under the never-implemented Measure 47 for each district.

The Constitutional Cut was Calculated First

After calculating what taxes would have been under Measure 5 and Measure 47, the next step was to subtract the tax levies not subject to the constitutional cut under Measure 50. As shown in the table above, those levies are 100 percent levies, rural hospital levies, gap bond and pension levies, local option levies, and exempt bond levies. After subtracting these levies from the Measure 5 and Measure 47 taxes for each district, the "Measure 47 cut" for each district was calculated: it is the percentage that Measure 47 would have reduced revenue for each district relative to what each district would have raised under Measure 5 **for levies subject to the constitutional cut**.

The Measure 47 cut varies considerably among districts, primarily because property values grew at varying rates between 1995–96 (the base year for Measure 47 taxes) and 1997–98 (the base year for Measure 5 taxes), but also because some districts passed new levies over the two-year period and others had levies that expired. It is important to keep in mind that Measure 50 required a **statewide average** cut of 13.2 percent, not a cut of 13.2 percent for every district.

For all districts taken together, the average statewide Measure 47 cut was 17.8 percent. Measure 50 required that the statewide cut be 13.2 percent (17 percent adjusted for rapid growth due to new construction). Because the average Measure 47 cut is higher than 13.2 percent, the cut for each district must be adjusted downward proportionally until the statewide cut equals 13.2 percent. This adjusted cut for each district is called the "constitutional cut".

As an example, consider the Central Oregon Community College district. Under Measure 5, the district would have raised $5.94 million, and under Measure 47 it would have raised $5.57 million, making its Measure 47 cut equal to 6.2 percent. But because the statewide average Measure 47 cut was 17.8 percent and the required cut for Measure 50 is 13.2 percent, the Measure 47 cut for Central Oregon Community College must be adjusted by the ratio 13.2/17.8, reducing it to 4.6 percent. This is Central Oregon Community College's constitutional cut.

Then the Supplemental Cut was Calculated

The implementing legislation for Measure 50 provided for an additional cut beyond the constitutional cut. The "supplemental cut" applied to all levies that were subject to the constitutional cut, plus 100 percent levies and pension levies. Local option levies, gap bond levies, rural hospital levies, and exempt bond levies were not subject to either cut.

The amount of the supplemental cut was set so that the average statewide tax cut due to the combined constitutional and supplemental cuts, when measured over the larger base of levies subject to either cut, was equal to the constitutional cut of 13.2 percent. The supplemental cut was calculated to be 1.1 percent. The sum of the constitutional cut and the supplemental cut is the "Measure 50 cut". In our example, the Measure 50 cut for Central Oregon Community College is 4.6% + 1.1% = 5.7%. For districts that have only 100 percent levies or pension levies, which are subject only to the supplemental cut, the Measure 50 cut is 1.1 percent.

[8] Measure 47 was a property tax limitation passed by voters in November of 1996 but repealed by Measure 50 before it was implemented. Measure 47 rolled back property **taxes** (not assessed values) to 90 percent of 1995–96 levels for each property in the state.

Finally, the Permanent Rates Were Calculated

Once the Measure 50 cut is calculated for each district, it is straightforward to calculate each district's permanent rate. First, determine the amount of revenue each district will raise under Measure 50 by applying the Measure 50 cut to the Measure 5 tax for each district. Returning to the Central Oregon Community College example, Measure 50 revenue equals (100%-5.7%) x $5.94 million, or $5.60 million. The permanent rate is simply each district's Measure 50 revenue divided by its assessed value. Because Central Oregon Community College's total assessed value is $8.66 billion for 1997–98, its permanent rate is $5.60 million/$8.66 billion = .0006463, or $0.6463 per thousand dollars of assessed value. The permanent rate for each district in the state is shown in Appendix A.

What About Tax Rates for Levies That Are Not Part of the Permanent Rate?

As the table above indicates, some levies do not become part of the permanent tax rate. These levies are local option levies, gap bond and pension levies, and exempt bond levies. Each of these levies is temporary, so each has a rate separate from the permanent rate.[9] Tax rates for these levies are recalculated each year, and typically the rates will fall over time as assessed values increase. Appendix A also shows these rates for all districts in the state.

[9] Gap bond levies and pension levies are treated as separate levies under Measure 50 even though they were passed as components of general operating levies. When the obligations for which gap bonds and pension levies are dedicated have been paid, the gap bond and pension rates will be "rolled up" into the permanent rate of the district.