How Measure 50 Changed The Property Tax System

To understand how Measure 50 changed the property tax system, it is helpful to understand its historical context. Two types of governmental bodies are funded through the property tax system: taxing districts and urban renewal agencies. Taxing districts have the legal authority to levy taxes and, under Measure 50, each has a permanent tax rate. In addition, taxing districts can levy temporary taxes, with voter approval, both for operating expenditures and debt service.

Urban renewal agencies, on the other hand, do not have permanent tax rates. They primarily raise revenue via a method known as tax increment financing. Under this method, an urban renewal agency is allocated revenue based on the amount of the urban renewal area's excess or "incremental" value, which is the amount of assessed value above a base value that is frozen at a particular point in time. Under Measure 50, urban renewal agencies can also impose levies, known as urban renewal special levies, if revenue from tax increment financing falls short of their authority.[3]

There have been two structural changes to the system in the 1990s as a result of ballot measures. Measure 5, which introduced tax rate limits, was passed in 1990. In 1997, Measure 50 was passed and transformed the system from one primarily based on levies to one primarily based on permanent rates. A good way to think of the recent history of the property tax system is within the context of these ballot measures and to divide the discussion into three distinct periods—Pre-Measure 5, Measure 5, and Measure 50. The following discussion first reviews the history of taxing district taxes and then turns to a description of urban renewal taxes.

Pre-Measure 5

Oregon had a pure levy-based property tax system until 1991–92. Each taxing district calculated its own tax levy based on its budget needs. County assessors estimated the real market values of all property in the state. Generally speaking, the full value of property was taxable; there was no separate definition of assessed value. The levy for each taxing district was then divided by the total real market value in the district to arrive at a district tax rate. The taxes imposed by each district equaled its tax rate multiplied by its real market value. Consequently there was no difference between taxes imposed and tax levies under this system, so taxes imposed grew with levies. Most levies were limited to an annual growth rate of 6 percent, and levies above that required voter-approval.

Under this system, the tax rate faced by an individual property depended on the combination of taxing districts from which it received services. Taxes for each property were calculated by first summing the tax rates for the relevant taxing districts to arrive at a consolidated tax rate. Then that tax rate was multiplied by the assessed value of the property to determine the taxes imposed on that property. The annual growth in taxes on an individual property depended on the interaction of a number of factors, including the growth in levies and the amount of new construction within the district. For example, if there were no new construction, then any growth in levies meant a growth in taxes for individual properties whose value did not decline. On the other hand, new construction within the district meant that the levies were distributed across more properties, causing the tax rate to fall. This growth could translate into lower taxes for some individual properties.

Measure 5

Measure 5 introduced limits, starting in 1991–92, on the taxes paid by individual properties. The limits of $5 per $1,000 real market value for school taxes and $10 per $1,000 real market value for general

[3] Urban renewal authority for the 1997–98 tax year was based on the authority from prior years plus growth in each area's excess or incremental value. Because of changes made by Measure 50, revenue from the increment for some urban renewal areas fell short of their authority, so urban renewal special levies were required.

government taxes applied only to operating taxes, not bonds.[4] If either the school or general government taxes exceeded its limit, then each corresponding taxing district had its tax rate reduced proportionately until the tax limit was reached.

Measure 5 resulted in a system that was a hybrid of levy-based and rate-based systems. For properties where the school and general government taxes were below the limits, the process resembled a levy-based system; taxes imposed depended on levies. For properties where the calculated taxes exceeded the limits, and hence the tax rates were fixed at the limits, the process more closely resembled a rate-based system; taxes imposed depended on assessed values.

Measures 47 and 50

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 would have rolled back property **taxes** (not assessed values) to 90 percent of the 1995–96 level for each property in the state. The legislatively referred Measure 50 was drafted to correct a number of technical problems with Measure 47 while replicating the tax cuts of Measure 47.

The objective of Measure 50 was to reduce property taxes in 1997–98 and control their future growth. It achieved these goals by cutting the 1997–98 district tax levies and making the following three changes: the switch to permanent rates, the reduction of assessed values, and the limitation placed on yearly assessed value growth. (Details of the levy cuts are provided in the following section.)

While Measure 5 simply limited the tax rates used in calculating taxes imposed, Measure 50 changed the conceptual definitions of both assessed values and tax rates. The rest of this section discusses the conceptual changes to these two components of the tax system and then turns to a brief description of urban renewal. The section concludes with a review of the rate limits established by Measure 5.

Assessed Values

One of the fundamental changes made by Measure 50 was a change in the definition of assessed, or taxable, value. Assessed value is no longer equal to real market value. For 1997–98, the assessed value of every property was reduced to 90 percent of its 1995–96 assessed value.[5] Because value growth has not been uniform throughout the state, this change has varying impacts. The greatest cuts in assessed value were realized to those properties that experienced the greatest growth during the past two years. For property that did not exist in 1995–96, the assessed value was calculated as a percentage of its market value.

For existing property, Measure 50 limited the annual growth in assessed values to 3 percent, so predicting future assessed values becomes much simpler than in the past. For new property (for example, newly constructed homes), assessed value is calculated as the market value of the property times the ratio of assessed value to market value of similar existing properties. This approach to assigning values to a new property assures that it is taxed consistently with similar existing properties. Measure 50 also stipulates that assessed value may not exceed real market value. As a result, if the real market value of a property falls below its assessed value, the taxable value will be set to the real market value.

District Tax Rates

There are five types of property taxes that taxing districts may impose: taxes from the permanent rates, pension levies, gap bonds, local option levies, and bond levies. Only the permanent rates are fixed; they do not change from year to year. For the local option and bond levies, the tax measures are typically voted on in terms of dollars and the rates are calculated as the total levy divided by the assessed value in the district. The rates for pension levies and gap bonds are also calculated by dividing the levy by the district's value. Each of these sources of taxation is described below.

[4] The limit for schools was $15 per $1,000 assessed value in 1991–92 and reduced by $2.50 each year until it reached a rate of $5 per $1,000 assessed value in 1995–96.

[5] Note that in 1995–96, assessed and real market value were equal.

Permanent Rates

The biggest change in the system this year is the use of permanent tax rates by the roughly 1,400 taxing districts in the state. With the conversion from a modified levy-based system to a rate-based system, the use of permanent tax rates has become central to the calculation of taxes. (Details on how the permanent rates were calculated are provided in the following section.) These taxes, sometimes referred to as operating taxes, are used to fund the general operating budgets of the taxing districts and account for the single largest component of property taxes.

Strictly speaking, the permanent rates are rate limits, so districts may use any rate below their permanent rate. There are approximately 40 such districts this year, eleven of which did not impose any taxes. In 1997–98, taxes from the permanent rates accounted for $1,925 million of $2,476 million, or 78 percent, of property taxes.

Gap Bonds

Gap bonds represent debt obligations that have been funded with the operating taxes of districts. They are not a permanent fixture in the system in that they were only created for purposes of implementing Measure 50. There will be no new gap bonds in the future and the ones that currently exist will become part of the permanent rate for the 22 districts that have them once the obligations are paid in full. Gap bonds account for nearly $16 million in property taxes in 1997–98.

Pension Levies

The city of Portland is the only district with a pension levy. It represents an ongoing obligation the city has to its fire and police forces. Unlike gap bonds, the city of Portland pension levy does not have a particular date when it will be paid off. As long as Portland's city charter commits operating funds for police and fire pensions, the pension levy will continue. This levy accounts for almost $53 million in property taxes in 1997–98.

Local Option Levies

Local option taxes are an important feature of the new property tax system under Measure 50 because they represent the only way for taxing districts to raise operating revenue beyond the amount from their permanent rate. Because voters at the local level must approve these levies, they represent one aspect of local control over the level of property taxes. In 1997–98, 17 districts imposed such taxes, totaling just under $23 million. Currently, all districts except schools are authorized to levy local option taxes. The table on the next page provides information for districts levying local option taxes in 1997–98. Measure 50 required that local option levies be approved by a majority of voters in a general election or an election with at least a 50 percent voter turnout.

Local Option Taxes in 1997-98

District	County	Local Option Authority	Local Option Imposed	Total Taxes Imposed by District	Local Option as Share of Total
Unity Community Hall Recreation	Baker	8,500	8,470	8,470	100.0%
West Linn City	Clackamas	2,007,813	2,007,736	5,010,889	40.1%
Gold Beach City	Curry	35,000	34,999	314,266	11.1%
Deschutes County Sheriff (City)	Deschutes	3,146,400	3,029,836	3,029,836	100.0%
Deschutes County Sheriff (Rural)	Deschutes	3,753,600	3,726,587	3,726,587	100.0%
Black Butte Ranch RFPD	Deschutes	130,500	130,380	730,553	17.8%
Talent 5 RFPD	Jackson	320,000	319,994	1,603,025	20.0%
Ashland City	Jackson	1,100,000	1,100,000	5,368,363	20.5%
Grants Pass City	Josephine	2,865,000	998,412	5,310,190	18.8%
Klamath County	Klamath	1,100,000	1,060,630	7,017,410	15.1%
Jack Pine Village Road	Klamath	3,000	2,993	2,993	100.0%
Lane County	Lane	2,450,000	0	21,316,087	0.0%
Siuslaw Public Library	Lane	78,919	0	531,159	0.0%
Linn County	Linn	7,882,426	7,756,416	14,421,732	53.8%
Sweet Home City	Linn	1,606,250	1,510,976	1,852,457	81.6%
Tillamook County	Tillamook	750,000	749,564	5,330,735	14.1%
Dufur Park and Recreation	Wasco	20,000	19,995	47,652	42.0%
Dayton City	Yamhill	137,800	137,798	229,634	60.0%
Dundee City	Yamhill	43,560	43,557	307,289	14.2%
Total		27,438,768	22,638,343	76,159,327	29.7%

Bond Levies

Bonds have remained largely unchanged during this transformation and are used to pay principal and interest for bonded debt. This year, 430 districts imposed roughly $359 million to make these debt payments. Under the provisions of Measure 50, new bonds, like local option taxes, are subject to a 50 percent voter turnout if the election is not a general election.

Offsets

Some taxing districts receive revenue from the taxation of timber. This revenue is used to reduce, or offset, the amount of revenue they need to raise from their permanent rates, reducing the permanent rate actually used. Only general government districts, not schools, reduce their permanent tax rates when they receive offset payments. Schools do, however, receive offset payments that represent additional revenue because their permanent rates are not reduced.

Urban Renewal Taxes

Urban renewal agencies are different from taxing districts in that they do not have permanent rates and raise revenue primarily through tax increment financing. When an urban renewal plan is created, the value of the property within its boundaries is locked in time, or frozen. The agency then raises revenue in subsequent years from any value growth above the frozen amount; this value growth is referred to as the increment. The tax rate used to calculate taxes imposed for the urban renewal plan is the consolidated tax rate for the taxing districts within the geographic boundaries of the plan. These urban renewal taxes, referred to as "tax off the increment", are calculated as the consolidated tax rate times the value of the increment. In this first year of Measure 50, urban renewal agencies raised just over $81 million off the increment.

Urban Renewal Special Levies

Under certain circumstances, urban renewal agencies are allowed to raise additional revenue, beyond what they raise off their increment, via special levies. Starting in 1997–98, if an existing urban renewal plan received less revenue off its increment under Measure 50 than what it would have received under pre-Measure 50 tax system, the agency can impose a special levy to make up for the difference. There were 42 urban renewal agencies that imposed special levies in 1997–98, imposing a total of $20.2 million in property taxes.

Measure 5 Rate Limits: Compression

A feature of the old system that still exists is the tax limits for individual properties of $5 per $1,000 real market value for school taxes and $10 per $1,000 real market value for general government taxes. It is important to note that while property tax rates are generally discussed in terms of assessed value, the limits apply to real market value. Prior to Measure 50, this distinction was unnecessary, as assessed value equaled real market value. The first step in calculating taxes imposed for a property involves multiplying the consolidated tax rate by the assessed value. Then, to test the tax totals against the limits, the total taxes for schools and general government are each divided by the property's real market value. The results are then compared to the appropriate limit.

If property taxes exceed these limits, then they are reduced, or "compressed", to the limits. To accomplish this, the taxes for each taxing district must be reduced. First, local option taxes are reduced, possibly to zero. If there are no local option taxes or they have been reduced to zero, the tax rates from the permanent rate, gap bond, and pension levies for each taxing district are reduced proportionately. This process is referred to as compression and the revenue loss for the districts is referred to as compression loss.

Figure 1 shows how the different parts of the property tax system under Measure 50 fit together to calculate the taxes for an individual property. The following section provides a detailed description of how the permanent tax rates were calculated.

Figure 1

Property Tax Calculation for an Individual Property