

# Introduction to Local Option Levies



Parkrose  
School District

PiperJaffray

REALIZE THE POWER  
OF PARTNERSHIP®

Alex Bowers  
Assistant Vice President  
503-275-8304  
[alexander.j.bowers@pjc.com](mailto:alexander.j.bowers@pjc.com)

Brendan Watkins  
Assistant Vice President  
(503) 275-8307  
[brendan.p.watkins@pjc.com](mailto:brendan.p.watkins@pjc.com)

---

## Local Option Background

- Local option levies present an alternative for raising additional operating funds from property taxes.
- Created under Measure 50 in 1997.
- Available for operations (5 year limit), or capital (10 years or useful life of project, whichever is less).
- Can be levied as fixed dollar amount or rate per thousand.
- Subject to majority voter approval at May or November elections or other regular elections with 50% voter turnout.

---

## Local Option: What Can You Use it For?

### Operations:

- ✓ May be used for any legally allowable operating expenses of an Oregon municipality.

### Capital:

- ✓ May be used for broad list of capital items, as long as life of levy matched to life of items financed.
- ✓ Given subject to same voter test as GO bonds and revenue stream is more unpredictable, jurisdictions tend to use GOs instead.

---

# Property Tax History

## Measure 5 (1990)

- Capped property taxes at \$15/\$1,000 of **RMV** of property:
  - \$5 for education (SDs, ESDs and CCs)
  - \$10 for general government (all others)

## Measure 50 (1997)

- Created lower **AV** on which property taxes are calculated. Capped AV growth at 3% a year.
- Converted levy authority into permanent operating rates, which can never be increased.
- **Created local option levies.** Levied in addition to permanent rates, but still subject to M5 limits. Require voter approval.

---

## Local Option Limits

### Constitutional and statutory limits apply to SD local option levies

- Constitutional (Measure 5):
  - M5 limit of \$5/\$1,000 real market value for education
- Statutory (revised 2007):
  - \$2,000 per ADMw in FY 2019 (increases at 3%/year)
  - 20% of State resources (total formula revenue)

Every dollar collected above the statutory limit is counted as a local source inside the state school fund formula

### Equalization Grants

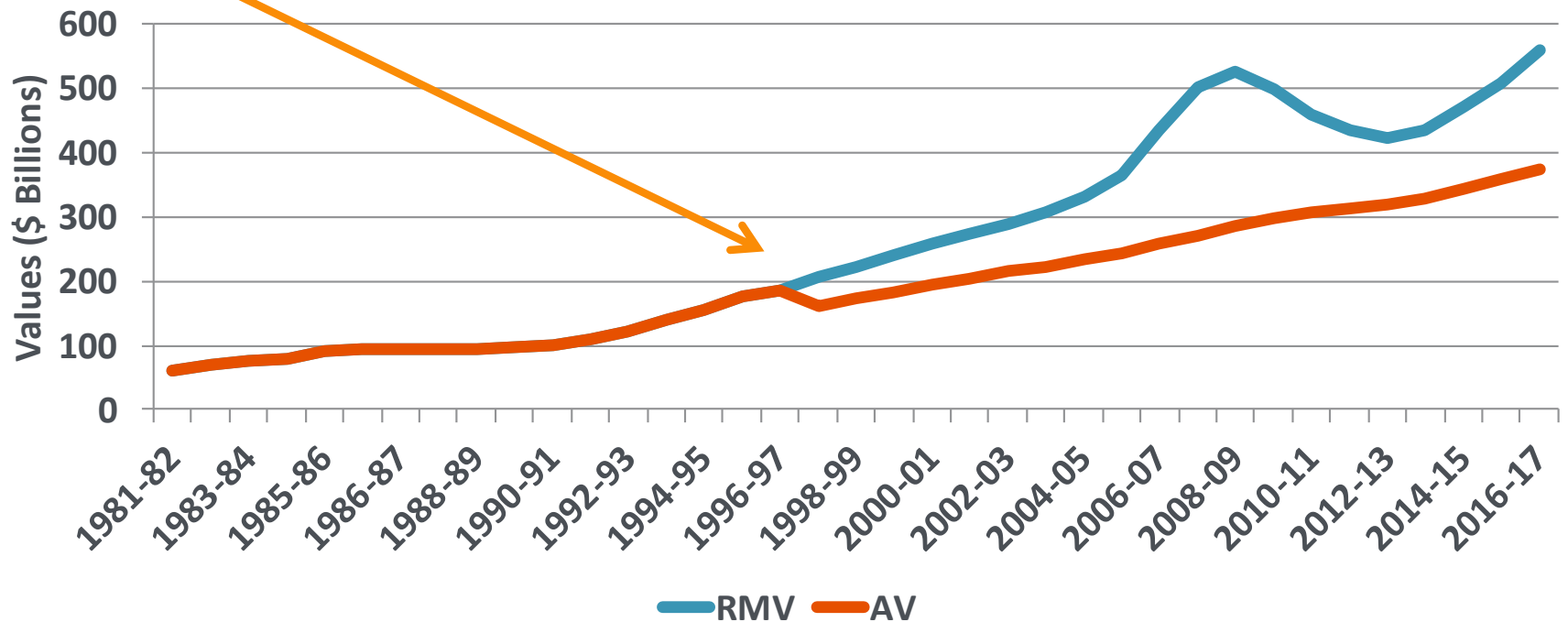
- Equalization grants provided by the State for low property value districts.
- Legislature must appropriate funds biennially for equalization grants.
- Parkrose was not eligible for a grant in Fiscal Year 2019.

# Mind the Gap!

- Every property has “gap” between RMV and AV.
- If property’s RMV increases faster than 3% AV limit, gap grows.
- Local Option Levies ‘tax the gap.’

1997: M50 froze AV at 90% of 1995 RMV, capped growth at 3%/year

AV & RMV of Property in Oregon  
FY 1981-82 to 2016-17



## Different Property Types Can Have Very Different Gaps

- Gap on residential property is often wider than other types.
- In some cases commercial and industrial property depreciate, causing RMV to decline. AV can never be greater than RMV.



House		Target Store	
Real Market Value:	\$250,000	Real Market Value:	\$80,256,230
Assessed Value:	\$150,000	Assessed Value:	\$79,508,329
AV as a % of RMV:	60%	AV as a % of RMV:	99%

---

# Calculating Local Option Revenue

## Total Local Option Capacity:

- Sum of all gaps in jurisdiction is total local option capacity.
- Some properties may already be at M5 limit, others may be well below.
- **In other words, not everyone pays local option taxes; some pay more than others.** Only way to estimate amount raised is on property by property basis.
- Overlapping jurisdictions may have levies, causing compression and competition.
- Only those jurisdictions with consolidated tax rates significantly below M5 limits have consistent collections.



# Theoretical Local Option Capacity – Parkrose SD

	Parkrose School District					
	2014	2015	2016	2017	2018	2019
ADMw	4,006	3,987	4,263	4,261	4,060	4,060
SSF Revenues*	\$ 26,828,417	\$ 28,133,092	\$ 30,648,069	\$ 31,410,098	\$ 32,690,945	\$ 33,009,348
<b>Permanent Tax Rates</b>						
School District	\$ 4.8906	\$ 4.8906	\$ 4.8906	\$ 4.8906	\$ 4.8906	\$ 4.8906
Community College	0.4917	0.4917	0.4917	0.4917	0.4917	0.4917
Education Service District	0.4576	0.4576	0.4576	0.4576	0.4576	0.4576
Total Education Rate	\$ 5.8399	\$ 5.8399	\$ 5.8399	\$ 5.8399	\$ 5.8399	\$ 5.8399
<b>Education Measure 5 Compression</b>						
School District (actual)	\$ 756,293	\$ 739,977	\$ 702,850	\$ 787,500	\$ 834,772	\$ 860,347
Community College (est.)	76,038	74,397	70,664	79,175	83,928	86,499
Education Service District (est.)	70,764	69,238	65,764	73,684	78,107	80,500
Total Education Compression (est.)	\$ 903,094	\$ 883,612	\$ 839,278	\$ 940,359	\$ 996,807	\$ 1,027,347
<b>District Total Property Values</b>						
M5 Real Market Value	\$ 4,009,742,545	\$ 4,499,337,514	\$ 4,927,875,395	\$ 5,892,012,328	\$ 6,787,761,246	\$ 7,788,224,354
Net Assessed Value	3,137,399,967	3,397,792,523	3,538,715,920	3,881,758,380	4,125,140,813	4,460,773,352
AV as % of RMV	78%	76%	72%	66%	61%	57%
Assessed Value per ADMw	\$ 783,189	\$ 852,254	\$ 830,139	\$ 910,914	\$ 1,016,075	\$ 1,098,834
<b>Education Taxes in the District</b>						
Education taxes before Compression	\$ 18,322,102	\$ 19,842,769	\$ 20,665,747	\$ 22,669,081	\$ 24,090,410	\$ 26,050,470
Less M5 Compression Loss	(903,094)	(883,612)	(839,278)	(940,359)	(996,807)	(1,027,347)
Education taxes collected	17,419,008	18,959,157	19,826,470	21,728,721	23,093,603	25,023,124
Education taxes at \$5/\$1,000 RMV	20,048,713	22,496,688	24,639,377	29,460,062	33,938,806	38,941,122
Measure 5 Gap Capacity	\$ 2,629,705	\$ 3,537,531	\$ 4,812,907	\$ 7,731,340	\$ 10,845,204	\$ 13,917,998
<b>Local Option Levy Limits</b>						
M5 Gap Capacity	\$ 2,629,705	\$ 3,537,531	\$ 4,812,907	\$ 7,731,340	\$ 10,845,204	\$ 13,917,998
Per Student Limit (beginning in FY19, \$2,000/ADMw + \$3% annually)	4,783,273	4,903,281	5,399,969	5,560,128	5,456,113	8,119,100
25% of SSF Limit (beginning in FY19, Previously, 20%)	5,365,683	5,626,618	6,129,614	6,282,020	6,538,189	8,252,337
Limit	M5 Limit	M5 Limit	M5 Limit	\$1,304.77 Per	\$1,343.91 Per	\$2,000.00 Per

---

## School Districts with Local Option Levies

18 school districts had local option levies in place in Fiscal Year 2019:

District	Rate
Portland SD 1J	\$ 1.99
Corvallis SD 509J	1.50
Eugene SD 4J	1.50
Crow-Applegate-Lorraine SD 66	1.50
Philomath SD 17J	1.50
West Linn-Wilsonville SD 3J	1.50
Lake Oswego SD 7J	1.39
Riverdale SD 51J	1.37
Ashland SD 5	1.29
Beaverton SD 48J	1.25
Hood River County SD	1.25
Falls City SD 57	1.25
Tigard-Tualatin SD 23J	1.00
Sisters SD 6	0.75
Siuslaw SD 97J	0.75
Seaside SD 10	0.52
Pendleton SD 16	0.40
Sweet Home SD 55	0.32

---

## Summary

- Local option levies are main source of additional property tax funding.
  - Every property is affected differently: some may pay the entire amount, and some may pay nothing.
  - Because AV, RMV and tax levies vary every year, the amount collected will also vary.
  - Competing levies may cause increasing compression.
- ➔ Bottom line: local option levies are unpredictable, difficult to explain and inequitable. But they may be your only choice for additional property tax revenue.**

---

## Contact information

PiperJaffray®

---

REALIZE THE POWER  
OF PARTNERSHIP®

**Alex Bowers**  
**Assistant Vice President**  
**503-275-8304**  
**[alexander.j.bowers@pjc.com](mailto:alexander.j.bowers@pjc.com)**

**Brendan Watkins**  
**Assistant Vice President**  
**(503) 275-8307**  
**[brendan.p.watkins@pjc.com](mailto:brendan.p.watkins@pjc.com)**

---

# Disclosure

Piper Jaffray is providing the information contained herein for discussion purposes only in anticipation of being engaged to serve as underwriter or placement agent on a future transaction and not as a financial advisor or municipal advisor. In providing the information contained herein, Piper Jaffray is not recommending an action to you and the information provided herein is not intended to be and should not be construed as a “recommendation” or “advice” within the meaning of Section 15B of the Securities Exchange Act of 1934. Piper Jaffray is not acting as an advisor to you and does not owe a fiduciary duty pursuant to Section 15B of the Exchange Act or under any state law to you with respect to the information and material contained in this communication. As an underwriter or placement agent, Piper Jaffray’s primary role is to purchase or arrange for the placement of securities with a view to distribution in an arm’s-length commercial transaction, is acting for its own interests and has financial and other interests that differ from your interests. You should discuss any information and material contained in this communication with any and all internal or external advisors and experts that you deem appropriate before acting on this information or material.

The information contained herein may include hypothetical interest rates or interest rate savings for a potential refunding. Interest rates used herein take into consideration conditions in today’s market and other factual information such as credit rating, geographic location and market sector. Interest rates described herein should not be viewed as rates that Piper Jaffray expects to achieve for you should we be selected to act as your underwriter or placement agent. Information about interest rates and terms for SLGs is based on current publically available information and treasury or agency rates for open-market escrows are based on current market interest rates for these types of credits and should not be seen as costs or rates that Piper Jaffray could achieve for you should we be selected to act as your underwriter or placement agent. More particularized information and analysis may be provided after you have engaged Piper Jaffray as an underwriter or placement agent or under certain other exceptions as describe in the Section 15B of the Exchange Act.

Piper Jaffray Companies (NYSE: PJC) is a leading investment bank and asset management firm. Securities brokerage and investment banking services are offered in the U.S. through Piper Jaffray & Co., member SIPC and FINRA; in Europe through Piper Jaffray Ltd., authorized and regulated by the U.K. Financial Conduct Authority; and in Hong Kong through Piper Jaffray Hong Kong Limited, authorized and regulated by the Securities and Futures Commission. Asset management products and services are offered through five separate investment advisory affiliates—U.S. Securities and Exchange Commission (SEC) registered Advisory Research, Inc., Piper Jaffray Investment Management LLC, PJC Capital Partners LLC and Piper Jaffray & Co., and Guernsey-based Parallel General Partners Limited, authorized and regulated by the Guernsey Financial Services Commission.