September 26, 2017

Examples of the Impact on Compression from Extending a
Parks District Permanent Tax Rate
Inside the City of Eugene Boundaries

The mechanics of the Oregon tax system are complex, and it is not easy to intuitively understand the potential impacts of adding an item onto the tax bill. In order to get a better sense of what would happen if a parks district permanent tax rate were added to City of Eugene tax bills, the Lane County Assessment and Taxation (A&T) office was requested to complete an analysis.

It should be noted that the analysis represents a rough estimate of two potential scenarios out of many possible configurations that could be considered or implemented. The purpose of these examples is to show a range of potential outcomes on all of the tax line items for the City and County.

Example Scenarios

Two scenarios were posed to A&T. The assumptions used in the analysis were:

- A new permanent tax rate of either $1.50/$1000 or $3.0559/$1000 would be applied within the boundaries of the City of Eugene.
- Nothing would change within the boundaries of the River Road Parks District (it would continue to levy its $3.0559/$1000 permanent rate and a local option levy).

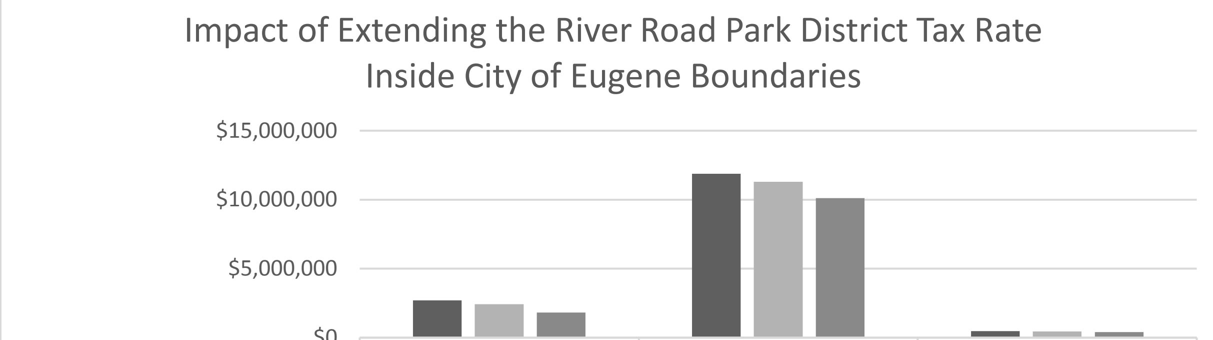
A&T simulated the methodology used to levy taxes, which is done on a property-by-property basis for all 50,000+ accounts.

Possible Impacts

The impact for adding a new parks and recreation permanent tax rate within the City of Eugene would affect only those taxes included in the “General Government” category, which are the City of Eugene, the Eugene Library Levy, Lane County, the Lane County Public Safety Levy, the Lane County 4-H / Extension Levy and any new park and recreation district levy. The dynamics of the urban renewal division of tax calculations are too complex to model in these simplified examples, so those impacts are not included in the results. Education taxes and general obligation bond taxes are not affected by adding a new permanent tax in the General Government category for a park and recreation district.

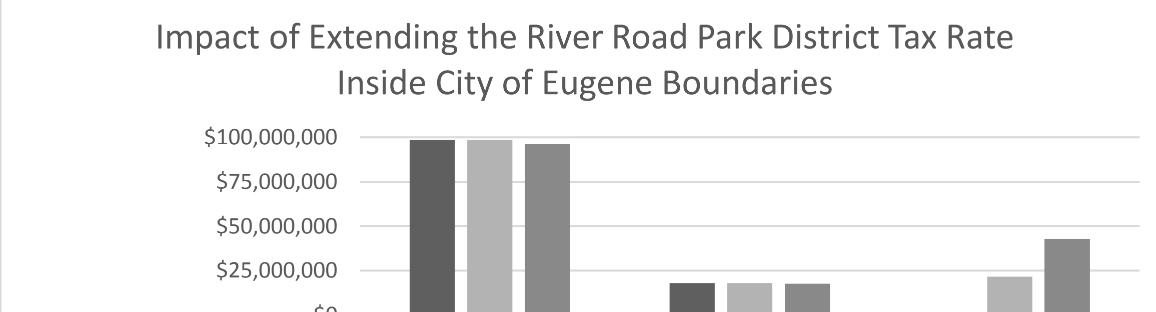
Estimated Results

The graphs on the follow page show the approximate amount of gross taxes to be collected (not including the impact of the early payment discount or any delinquencies or adjustments). The first graph shows the impact on General Government local option levies from adding a new permanent tax rate in the same category. As would be expected, all of the local option levies lose revenue from the addition of a tax rate that is above $1/$1000, and the impact grows as the new permanent tax rate gets larger. With a $1.50 new tax rate added, there is a total loss in the collective local option levies of nearly $900,000, as shown in the graph., and compression in local option levies grows to $2.7 million with a new tax rate of $3.0559 added



	Eugene Library Levy	Lane County Public Safety Levy	Lane County 4-H / Extension Levy
Current Rates	$2,700,000	$11,871,000	$469,000
With $1.50 RRPD Tax Rate	$2,414,000	$11,293,000	$446,000
With $3.0559 RRPD Tax Rate	$1,826,000	$10,105,000	$399,000

The second graph shows the impact on the General Government permanent tax rates from adding a new permanent tax rate in the same category. Permanent tax rates are affected by compression after the local option levies are eliminated from a property's tax bill. This will occur for certain properties that have a smaller amount of "room under the cap". The collective loss to permanent tax rates from adding a $1.50 tax rate for a parks and recreation district is negligible, but at a rate of $3.0559, the loss to the City's and County's general fund property tax receipts would total $2.6 million. Combined compression losses for both local option levies and permanent tax rates would be approximately $5.3 million with a new permanent tax rate of $3.0559 added to the General Government category.

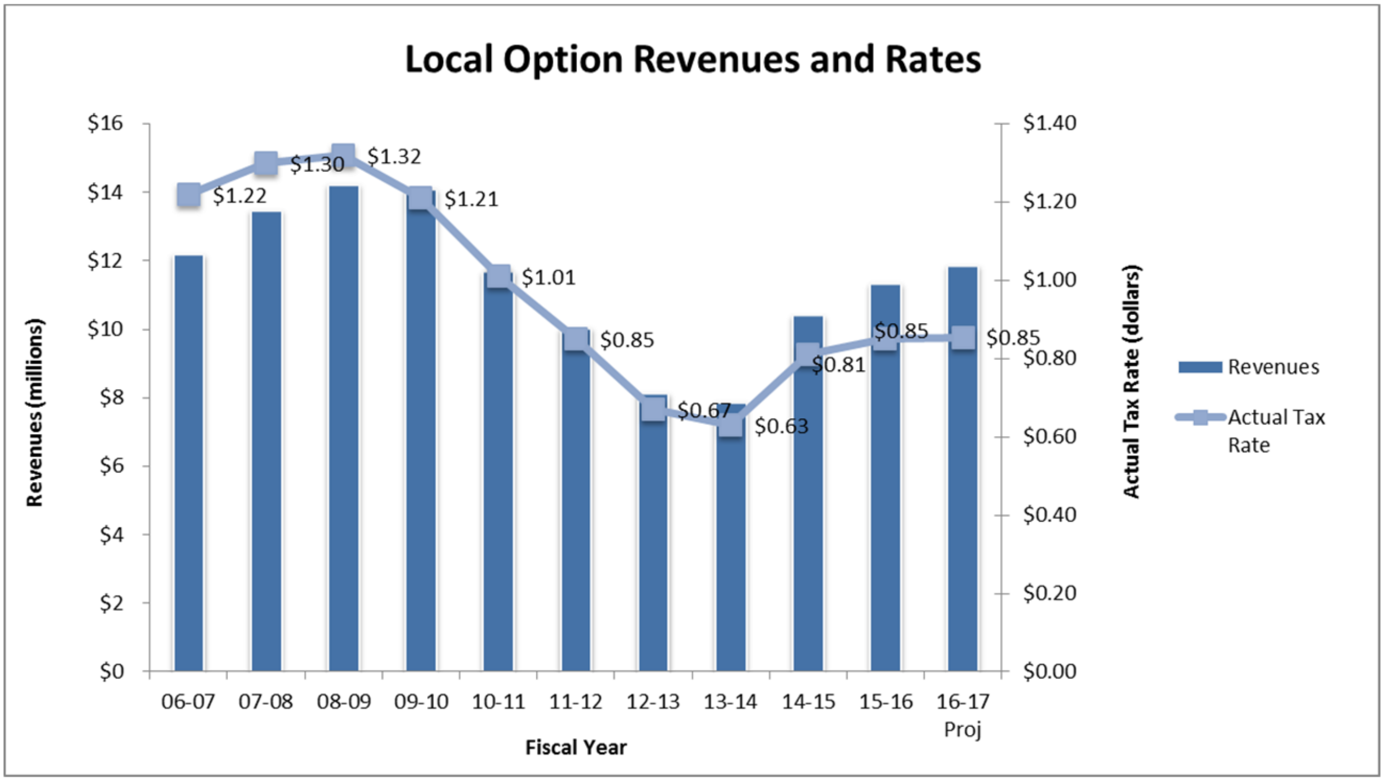


	City of Eugene Permanent Tax Rate	Lane County Permanet Tax Rate	River Road Parks District Permanent Tax Rate
Current Rates	$98,551,000	$18,012,000	$-
With $1.50 RRPD Tax Rate	$98,546,000	$18,011,000	$21,539,000
With $3.0559 RRPD Tax Rate	$96,330,000	$17,606,000	$42,950,000

Additional Factors to Consider

This analysis shows a rough estimate of the impact from adding a new permanent tax rate in the current relatively strong economic environment. The impact will change over time, depending on the relationship of assessed value to real market value by individual property. This dynamic is unpredictable and results in difficulty for estimating property tax revenues, as has been experienced by School District 4J over the years. The attached information from the District's May 2017 forecast document shows the volatility of revenue in a compression environment.

Local Option Revenue



In May 2000, District voters approved a five-year local option levy of $1.50 / $1,000 of assessed property value. Since the passage of Measure 5 in 1990, this was the first opportunity for District voters to increase school operating funds above the state funding formula. Voters renewed the local option for another five years in November 2004, 2008, and 2014.

The stability of this revenue source is largely dependent on the real market value of each property in the District increasing by at least the same rate as the assessed value (which is limited to a 3% increase per year up to the real market value). In a slower economy, real market value may increase at a slower rate than assessed value or fall. This condition was evident from 2011 to 2014, as tax revenues fell from a high of $14.2 million in 2009 to $7.9 million in 2014. Since then revenues have increased each year and are projected to reach $11.8 million in 2017 as home values continue to recover.

When the gap between real market value and assessed value is not sufficient to generate the full $1.50 tax rate, a property is said to be “in compression” and the taxes paid are only a part of the tax rate imposed. On one end, if assessed value and real market value is the same for a particular property, no taxes are due. On the other end, if the assessed value is far enough below the real market value, the full $1.50 rate is due. Most taxpayers are paying less than the full rate. Since 2006, the average “actual rate” received by the District has been as low as $0.63 in 2014 and as high as $1.32 in 2009. Beginning in 2010, falling real market values drove the actual rate down for five consecutive years. The past two years have shown increases and currently is projected to stay steady at $0.85 in 2017.

The local option calculation requires that compression be calculated for each property separately and it is therefore difficult to predict the effect of compression on District revenue.