Oregon’s 6 Percent Limitation

Oregon’s 6 percent limitation is a state constitutional provision that has generated much controversy, especially in recent years. This circular explains what the 6 percent limitation is and how it works, and it identifies some factors to consider in evaluating the limitation.

What is the 6 percent limitation?
The 6 percent limitation provision of the Constitution was adopted in 1916. With certain exceptions, it limits the amount of property taxes a local government can levy without a vote of the people. Under the present wording of the Constitution, each local government unit is prohibited from increasing its tax levy by more than 6 percent over the tax base unless so authorized by the voters.

What is a tax levy?
Each year, every local government in Oregon which levies a tax must prepare a budget. The property tax levy is computed from the budget. The levy is essentially the dollar amount needed to balance the budget after subtracting expected non-property tax revenues from planned expenditures.

What is a tax base?
The Oregon constitution defines a tax base as “the amount obtained by adding 6 percent to the total amount of the property tax lawfully levied by the taxing unit ... in any one of the last three years in which such a tax was levied ...”. Excluded from this amount (and therefore outside the tax base) are levies to pay bonded debt and special levies voted by the people. A local government can levy the amount of its tax base without a vote of the people. The terms “levy within the tax base” and “levy within the 6 percent limitation” are synonymous.

Does the 6 percent limitation allow local governments to automatically increase spending and taxes by six percent a year?
The limitation does not allow local governments to automatically increase their total budget by 6 percent per year. Nor does it necessarily allow an automatic 6 percent increase in the property tax levy. It permits only a 6 percent increase in the tax base. Let’s look at these distinctions more closely.

* Or an amount approved as a new tax base by the voters.

For most local governments in Oregon, the property tax is only one of several sources of revenue in their budgets. The amount of increase in their budgets is determined by the amount of revenue available from all sources. While school districts depend on the property tax for the major part of their revenues, the property tax finances less than one-third of city expenditures and less than one-quarter of county expenditures. The 6 percent limitation controls only the amount of increase in the property tax levy and not the increase in the total budget.

Furthermore, the limitation applies only to the “levy within the tax base” and not necessarily the entire

City of Salem 1975-76 Budget (App. $20 Million)

Under the 6% Limitation, the allowable annual increase in the property tax levy without a vote of the people . . .

. . . is NOT 6% of the total city budget.

Property Tax Levies

. . . is NOT 6% of the total property tax.

Property Tax Inside 6% Limitation.

IS 6% of this

The allowable increase under the 6% limitation is a little over one half of one per cent of the total city budget.

Figure 1

Extension Circular 906

Reprinted March 1979
property tax levy for many local governments in Oregon, and as a result a new tax category called the "tax base" (the base levied without a vote of the people) is introduced. Under the 6% limitation, which is less than one-third of the 1975-1976 levy, a local government could levy a tax of $106 without submitting the question to a vote of the people. Because no tax was levied in FY 1973, the "tax base" would be $100,000. According to the government's calculations, the tax base would have raised the necessary $120 for 1976, the "tax base" is even smaller fraction of the property tax levy.

What was the intended effect of the 6 percent limitation? The intended effect of a 6 percent limitation was no tax increase for citizens who could have some control over large tax increases. For example, a government could levy a tax of $106 without increasing the tax base.

**Table:**

<table>
<thead>
<tr>
<th>Property Tax Rate</th>
<th>Annual Increase</th>
<th>Tax Base Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100,000</td>
<td>$6.00</td>
<td>$600</td>
</tr>
<tr>
<td>$50,000</td>
<td>$3.00</td>
<td>$300</td>
</tr>
<tr>
<td>$100,000</td>
<td>$1.00</td>
<td>$100</td>
</tr>
<tr>
<td>$100,000</td>
<td>$0.00</td>
<td>$0</td>
</tr>
</tbody>
</table>

In order for a local government to have a new tax base, the excess tax revenue would be added to the tax base. The size of property tax levy is determined in the next fiscal year's process by subtracting expected non-property tax revenues from the total cost of providing these services, and dividing the remainder by the assessed value of the property.
many local governments are under pressure to remain within the 6 percent limitation. In their budgeting they often have to go outside the tax base. If voters approve such measures, then the 6 percent limitation may have little deterrent effect on the budget committee, since the government knows that it can go outside the tax base and meet more than 6 percent of its costs without fully reimbursing local governments for the cost of these services.

Factors to consider in evaluating the 6 percent limitation

The 6 percent limitation allows local governments to raise the amount of their levy without a vote of the people. A local government can levy the amount of its levy that is included in the tax base. The 6 percent limitation can levy without a vote of the people. Under the present wording of the Constitution, each local government is limited to a 6 percent increase in the levy. If you include the property tax levy within the 6 percent limitation, you can levy outside the 6 percent limitation. Increasing costs and declining revenues have had a dramatic effect on the budget committee, since the government knows that it can go outside the tax base and meet more than 6 percent of its costs without fully reimbursing local governments for the cost of these services.

The limitation provided in subsection (1) of this section shall be submitted at a regular statewide general or primary election. The limitation provided in subsection (1) of this section shall not apply to:

(a) Election imposed by subsection (1) of this section by a majority of the legal voters of the taxing unit and the old taxing unit may not levy amounts on the portion of its tax base as defined in subsection (2) of this section. The portion of any tax levied in excess of any limitation imposed by this section shall be void.

(b) The limitation provided in subsection (1) of this section by a majority of the legal voters of the taxing unit shall be submitted to the voters of the taxing unit voting on the question submitted to them in a form applicable to the taxing unit and the old taxing unit may not levy amounts on the portion of the tax base as defined in subsection (2) of this section. The portion of any tax levied in excess of any limitation imposed by this section shall be void. The 6 percent limitation, however, ensures that the government knows that it can go outside the tax base and meet more than 6 percent of its costs without fully reimbursing local governments for the cost of these services.

The limitation provided in subsection (1) of this section shall not apply to:

(a) Election imposed by subsection (1) of this section by a majority of the legal voters of the taxing unit and the old taxing unit may not levy amounts on the portion of the tax base as defined in subsection (2) of this section. The portion of any tax levied in excess of any limitation imposed by this section shall be void.

(b) The limitation provided in subsection (1) of this section by a majority of the legal voters of the taxing unit shall be submitted to the voters of the taxing unit voting on the question submitted to them in a form applicable to the taxing unit and the old taxing unit may not levy amounts on the portion of the tax base as defined in subsection (2) of this section. The portion of any tax levied in excess of any limitation imposed by this section shall be void.
The effectiveness of the 6 percent limitation in controlling property tax increases is a complex issue. The 6 percent limitation is intended to control the tax levy and spending of local governments, which includes school districts, the state government, and other taxing units. The limitation aims to prevent levies from exceeding the 6 percent increase over the previous year's base.

One-third (82) of Oregon's cities obtained voter approval for new tax bases and special levies to the voters more than once. However, many local governments are under pressure to request new services and, in growing areas, new revenues. The 6 percent limitation, as currently formulated, allows for increases up to 6 percent over the previous year's base, with limitations on additional increases.

The effectiveness of the 6 percent limitation can be evaluated by examining factors such as the percentage of city revenues generated by property taxes, the percentage of city expenditures funded by property taxes, and the percentage of city revenues from non-property tax sources. These factors can provide insights into the overall impact of the limitation on local government finances.

Factors to consider in evaluating the 6 percent limitation include:

1. The effectiveness of the 6 percent limitation in controlling property tax increases.
2. The percentage of city revenues generated by property taxes.
3. The percentage of city expenditures funded by property taxes.
4. The percentage of city revenues from non-property tax sources.

These factors can provide insights into the overall impact of the limitation on local government finances. Additionally, the effectiveness of the 6 percent limitation can be evaluated by examining the percentage of city revenues generated by property taxes, the percentage of city expenditures funded by property taxes, and the percentage of city revenues from non-property tax sources.

In conclusion, the 6 percent limitation is an important tool for controlling property tax increases. However, its effectiveness depends on the specific circumstances and the overall financial situation of local governments. Further research is needed to fully assess the impact of the limitation on local government finances and to determine its effectiveness in controlling property tax increases.