5-5-1987

# City Club of Portland Bulletin vol. 67, no. 49 (1987-5-8)

City Club of Portland (Portland, Or.)

CITY CLUB OF PORTLAND
BULLETIN
Vol. 67, No. 49

**Coming Events**

Second Wednesday:
Wednesday, May 13
**Should We Tax The Inns To Fund The Arts?**

Open Forums:
Tuesday, May 5
**Medical Malpractice Insurance: Two Perspectives**

Tuesday, May 12
**Siting the Landfill**

Thursday, May 14
**Restarting the Hanford N-Reactor**

**Printed Inside:**
Reports on
**Long-Term School Finance Reform and State Measure No. 2 ("Safety Net")**
(For discussion, debate and vote Friday, May 8, 1987)
(See inside for details)

*To inform its members and the community in public matters and to arouse in them a realization of the obligation of citizenship.*

Friday, May 8, 1987

## Harold W. McGraw, Jr.

Chairman of the Board, McGraw-Hill, Inc.
President, Business Council for Effective Literacy

## The Bottom Line: Literacy in the Workplace

Over 27 million adult Americans are functionally illiterate. Of these, 127,000 live and work in Oregon. They cannot read directions, danger signs, safety rules, or warning messages on medicine bottles. They cannot write a letter or fill out an application.

Believing that virtually all businesses are affected by illiteracy, our speaker this Friday founded the Business Council for Effective Literacy in 1983. *McGraw* contends that "employees with weak or nonexisting reading and writing skills result in lower productivity, lost supervisory time and restricted mobility and promotability."

*McGraw* appears before the Club in a joint meeting with participants at a one-day business and literacy forum presented by Oregon's Project Literacy U.S. (PLUS), along with several Oregon businesses. The conference and luncheon program are designed to help the community recognize the workplace as one of the few environments where illiteracy in adults can be detected and eliminated.

*McGraw* will speak about the growing illiteracy rate in America and the crucial role businesses have in combating it. He also will discuss how effective action by business can benefit Oregon's economic health.

**Portland Hilton, Rose Ballroom, 11:30 am**
**Meeting starts early at Noon for discussion, debate and vote on the reports on Long-Term School Finance Reform and State Measure No. 2 (May 1987 School "Safety Net" Measure), printed inside. Please come as early as possible. Doors open at 11:15 am. Meeting is at the Hilton Hotel.**

*Reservations & Cancellations: Call 222-2582 by 2:00 pm on Thursday, May 7. $9.00 members; $11.00 guests. Coffee tickets at the door, $2.25. Vegetarian meals must be reserved. Seating in back available for members who want to vote on the report.*

**Coming Events**

**Tuesday, May 5:** Open Forum with *Jim Kronenberg*, from the Oregon Medical Association, and *Larry Wobbrock*, from Oregon Trial Lawyers, discussing the effect of rising medical malpractice insurance rates on low and fixed income people and how the 1987 Legislature is responding. No charge. Brown bag. Sponsored by the Standing Committees on Human Services, Business & Labor and Law & Public Safety. (U.S. Bank Tower, 29th Fl., Conf. Rm. A, Noon-1:15 pm)

**Tuesday, May 12:**Open Forum with *Steve Greenwood*, Facilities Siting Manager for the DEQ, who will discuss the status of the landfill siting process. Sponsored by the Land Use & Transportation Standing Committee, this forum will be from Noon - 1:15 pm in the U.S. Bank Tower, 29th Floor, Conference Room A. No charge. Brown bag.

**Wednesday, May 13:** Second Wednesday Program entitled "Should We Tax the Inns to Fund the Arts?" On May 19th the citizens of Portland will vote on a proposed 2% increase in the hotel-motel tax to help fund the arts. Public testimony at the March 12 City Council hearing — at which the Commissioners voted unanimously to refer the tax increase to the voters — revealed that the change is supported by a broad spectrum of arts, business, and community leaders and opposed by the hotel-motel industry.

Supporters believe that increasing the tax is a relatively painless way to raise revenue for expected operating deficits at the Performing Arts Center and for more grants to local arts organizations through the Metropolitan Arts Commission. Opponents are concerned about negative effects on the lodging industry, currently suffering low occupancy rates.

Discussing these and other issues will be a panel consisting of: *Selina Ottum*, Executive Director of the Metropolitan Arts Commission; *Richard Ransome*, General Manager of the Westin Benson Hotel; and *Michael Griggs*, Artistic Director of The New Rose Theater, one of the resident companies at the new Performing Arts Center. *Jane Blume*, Chair of the Arts and Culture Standing Committee, will moderate.

The public is invited to this program which will be held from 5:30 - 7:00 pm in Room 298 of Portland State University's Smith Center. The doors open at 5:00 pm. Admission is $3.00 (no credit cards) and includes snacks and non-alcoholic beverages.

**Thursday, May 14:** Open Forum focusing on the issues surrounding the restarting of the N-reactor at Hanford and the converting of a partially-completed commercial reactor into a plutonium production facility. The speaker will be *Dan Reicher*, Staff Attorney with the Natural Resources Defense Council. The forum, which is being held during Hanford Awareness Week and sponsored by the Hanford Task Force of the Energy & Environment Standing Committee, will be from 5 - 6:30 pm at the U. S. Bank Tower, 29th Floor, Conference Room A. No charge.

**Friday, May 15:** *Governor Neil Goldschmidt* will address the City Club at a meeting limited to City Club members only. Reservations can be made beginning the afternoon of Friday, May 8. (Westin Benson, Mayfair Roon, Noon)

**Tuesday, May 19:** New member reception, to which all interested Club members are invited. Call 228-7231 if you plan to attend. (Portland Bldg., 2nd Floor, Rm. C, 5-7 pm)

**Nominating Committee Reports Slate for 1987-88**

*Philip R. Bogue*, Assistant to the President for Governmental and Community Relations, Portland State University, has been nominated for the office of President-Elect for 1987-88. *Charles F. Hinkle*, current President-Elect, will become President at the Club's annual meeting on Friday, June 5, 1987.

*Kris Olson Rogers*, Attorney and Consultant on Cultural Resource Law, has been nominated for the position of Second Vice President. *Richard P. Hutchison*, current Second Vice President, becomes First Vice President in June. Nominated for Treasurer of the Club is *Patricia M. Bedient*, Audit Manager, Arthur Andersen & Co.

Nominated to fill the four open governor positions for full, two year terms are: *Clyde H. Doctor*, Manager, Public Policy, Pacific Power; *William J. Fronk*, President, W. J. Fronk & Company and retired President, Hyster Company; *Charlotte M. Kennedy*, Executive Director, The World Affairs Council of Oregon; and *William W. Wyatt*, Executive Director, The Association for Portland Progress. Nominated to fill the unexpired term of governor *Jacob Tanzer*, who has resigned from the Board, is *James N. Van Duyn*, Associate Partner, Zimmer Gunsul Frasca Partnership.

Governors who will continue on the Board are *Mary M. Cramer*, *Marlene Bayless Mitchell* and *William W. Wessinger*. *William R. Lesh* continues as the Club Secretary. City Club Bylaws provide that the President-Elect becomes President and the Second Vice President becomes First Vice President the following year. All other officer and governor positions are two year terms.

Article V, Section 1 of the City Club Bylaws provides that other candidates for office may be nominated by any three members of the Club, provided each nomination is made in writing to the Board of Governors at least two weeks prior to the June 5, 1987, election. Such nominations, to be effective, must include a signed statement from the nominee that the nominee will serve if elected.

Deadline for nominations to be submitted to the Board is Thursday, May 21, 1987.

**New Member**

The City Club welcomes the following new member:

*Richard Walters*, Western Regional Controller, Linde Homecare/Union Carbide, sponsored by Edward Gronke.

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Phone 228-7231

NINA JOHNSON *Editor and Executive Director*

Reports on
# LONG-TERM SCHOOL FINANCE REFORM
and
# STATE MEASURE NO. 2 (MAY 1987 SCHOOL "SAFETY NET" MEASURE)

Published in
CITY CLUB OF PORTLAND BULLETIN
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# Reports on LONG-TERM SCHOOL FINANCE REFORM and STATE MEASURE NO. 2 (MAY 1987 SCHOOL "SAFETY NET" MEASURE)

To the Board of Governors,
City Club of Portland:

## I. INTRODUCTION

For over a decade, Oregon school finance and the reform of Oregon's school finance system have received great attention from educators, legislators, and concerned citizens in Oregon. Periodic school closures caused by defeated levies have fueled the debate. Tax reform efforts, including property tax relief, have complicated the issues.

### A. Statement of the Charge

Your Board of Governors established this Committee in January 1986. The charge, developed by the Education and the Government and Taxation Standing Committees, was to:

1. Determine criteria for a stable and equitable school finance system in Oregon;
2. Evaluate funding methods in other states that are comparable to Oregon and to compare those systems based on the criteria developed;
3. Determine whether Oregon's current school finance system meets the criteria for a stable and equitable school finance system;
4. Evaluate past and current proposals to reform Oregon's school finance system, according to the criteria; and
5. Recommend principles for change to the current school funding system or suggest an alternative funding system in Oregon that would provide the necessary stability and equity of education benefits.

When the Legislature convened in January 1987, it became clear that it planned to develop and present to the voters in May 1987 a "Safety Net" proposal designed to prevent school closures. Accordingly, your Board of Governors expanded the charge to include an examination of the ballot measure passed by the Legislature and referred to voters for the May 1987 election.

The second paragraph of the charge asked your Committee to evaluate funding methods in other states and to compare those systems according to the criteria developed for a stable and equitable system of school finance. Your Committee contacted both state and national educational organizations to obtain research done in the area. The only such research located was either out of date or too summary to be of use in the analysis requested. Your Committee discovered, moreover, that substantial background on each state's constitutional and statutory provisions relating to education and taxes would be necessary to analyze adequately a school finance system.

Accordingly, this report does not address that portion of the charge. Nonetheless, included as Appendix C is a chart of the major sources of revenues used to finance education in each state. Also shown is the average per-pupil expenditure for each state. This information should be used only for relative, and not absolute purposes. Particularly in the calculation of per-pupil expenditures, the states differ substantially in the types of cost included.

B. Executive Summary of Report

Oregon's current system of school finance is a mix of local, state and federal revenues, relying substantially on the local property tax. This system has produced varying degrees of stability for Oregon's 306 school districts. Some districts have an assured local property tax contribution approved by district voters. Other districts must seek annual approval by district voters of the levy needed to fund a significant portion of current operating expenses. Of these districts, some do not obtain the needed levy until halfway through the school year. On twelve occasions in the last decade, districts failed to pass a levy before their financial condition resulted in a closure of the district schools. These closures, and the threat of closures, raise legal questions and have serious consequences for education, the communities, and economic development.

The reliance of Oregon's system of school finance on local property tax also has produced differences between school districts in the tax burden district property owners bear to fund education and the per-pupil expenditures made to provide an educational program. Among relatively small school districts, per-pupil spending in one district may be more than double that in another. Tax burdens vary between $2.53/$1,000 assessed value and $26.94/$1,000 assessed value to support a K-12 program. These differences, or inequities, have led to voter dissatisfaction with the system and indirectly may assist in levy defeats. In addition, some effect on the quality of education can be assumed.

To remove these undesirable consequences of Oregon's current system of school finance, a new school finance system is necessary that is both stable and equitable. A school finance system is stable if school districts are certain to receive a sufficient amount of revenue to operate for a school year. A school finance system is equitable if it properly matches the financial burden with the benefits of education. For purposes of basic education, which benefits all of the citizens of a state, an equitable system of school finance is one which collects the necessary revenue on a statewide basis. For locally chosen educational programs that are beyond the basic level, the revenue source must be local. A comparison of Oregon's current system to the criteria of stability and equity demonstrates that it meets neither goal.

Over the last twenty years, Oregon voters have considered a variety of changes to Oregon's system of school finance. Some of these changes attempted direct reform, such as the sales tax proposals and new tax base measures. Other measures, such as the numerous property tax limitation proposals, would have affected school finance without achieving any reform. Although the specifics of the proposed changes vary considerably, all have one aspect in common: voter rejection. Despite these failures, reform of Oregon's system of school finance remains as critical as ever.

In designing a stable and equitable system of school finance for Oregon, your Committee believes that the Oregon Legislature, the Oregon Department of Education, other public leaders, and local school districts and school boards should be guided by six principles. Of greatest importance, these principles allocate the burden of financing education according to the benefits of education. Basic education, defined as the substantive educational requirements already established by the state, benefits all of Oregon's citizens and thus should be financed on a statewide basis. Local supplements to the basic educational program benefit primarily the local school district adopting them and, thus, should be financed on a local basis.

In addition, these principles achieve stability by assuring school districts of receipt of sufficient funds to provide the basic educational program. They achieve equity by distributing the funds needed for basic education to school districts on a per-pupil basis. Local control is preserved over the delivery of the basic educational program by allowing districts to budget the per-pupil grant as they determine provided they can demonstrate to the state that all program requirements are met.

Last, these principles include removing from local school boards the authority to close schools. Because all school districts will receive at least sufficient funds to offer a basic educational program, closure should no longer be an option. The Minority of your Committee recommends the addition of two principles to the above and further study by the City Club to develop the key features of an initiative proposal.

To implement these principles, Oregon will require a new statewide revenue source which, when added to the current state contribution to education, produces sufficient funds for statewide basic education. This new revenue source would offset local property tax revenues used for education on a dollar-for-dollar basis. The Majority of your Committee recommends consideration of two new sources. First, the Majority recommends consideration of a sales tax that includes the components previously adopted by the City Club. Second, the Majority recommends that Oregon study the feasibility of a statewide property tax. Upon study, this option may prove attractive. The Minority of your Committee does not support study of a statewide property tax as an option.

Finally, this Report includes an analysis of the safety net ballot measure Oregon voters will consider on May 19, 1987. The principles for reform to Oregon's system of school finance discussed above remain valid regardless of whether the safety net passes. The safety net provides a school district authority to levy the amount levied in a prior year if the district is unable to achieve approval of a special levy prior to the end of September in a given school year. Because this measure does not significantly change Oregon's system of school finance, it does not eliminate the need for further efforts at school finance reform.

The Majority of your Committee recommends approval of the safety net. The measure would enhance the stability of the current system of school finance by preventing school closures and may improve local districts' ability to obtain levy approval, particularly after use of the safety net for several years. The lack of a growth measure in the safety net would not worsen the financial condition of districts likely to use the measure and comports with the limited purpose of the safety net. The safety net would not significantly increase or decrease the inequity of the current system. The lack of school closures will not impede further efforts to achieve permanent reform nor noticeably diminish public support for any proposals. Finally, the Majority believes the measure would assist in Oregon's economic development efforts.

The Minority of your Committee recommends disapproval of the safety net because it would relieve the pressure necessary to achieve long-term school finance reform. The measure includes no provision to ensure that the safety net remains only a temporary solution. The Minority further concludes that school closures may not be more detrimental to economic development than a lower quality of education caused by restrictive funding. Finally, the safety net promotes a "no-growth" philosophy that could have negative consequences on education.

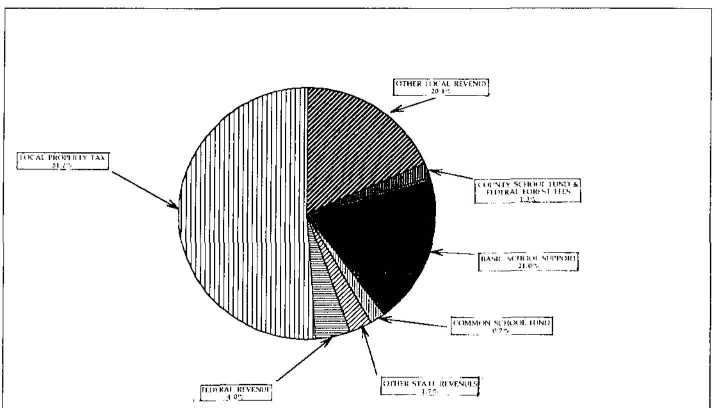
## II. BACKGROUND

Oregon presently has 306 school districts.(1) The districts include unified school districts, which offer grades kindergarten (K) through 12; elementary districts, which offer either grades 1 through 8 or 1 through 6; and union high districts, which offer either grades 9 through 12 or 7 through 12. The districts range in number of pupils from 2, the Andrews School District in Harney County, to 47,210, the Portland School District. Oregon's system of financing those school districts and the problems raised by that system of school finance are discussed below.

### A. Current School Finance System in Oregon

Oregon school districts currently receive funds from three general sources: local, state and federal. For 1984-85, the most recent year for which audited figures are available, the share of total resources for education in Oregon funded by each source was 72.6% local, 23.4% state, and 4% federal. Another figure that one can use to compare the local, state, and federal contributions to education is current operating expenditures, which is a subset of total resources. Total resources include items such as capital bonds and cash carryovers, which current operating expenditures may exclude in whole or in part. Because total resources were easier to determine accurately, the Committee decided to use this measure to calculate the local, state, and federal contributions.

The three general sources of revenue -- local, state, and federal -- are addressed more thoroughly below and are illustrated as follows:




1. In 1920, Oregon had 2,543 school districts. By 1950 this total had dropped by half to 1,180. In 1960, 594 school districts remained, and in 1970, only 356.

Local sources include current and prior years' property taxes (51.2%); other local revenues such as cash carryovers (20.1%); and the county school fund and federal timber revenues (1.3%). State sources include the Basic School Support (21.0%), the Common School Fund (0.7%), and other state revenues (1.7%). Federal sources (4%) are primarily grants for specific programs.

1. Local Sources

a. School Districts -- Property Taxes (51.2%)

The predominant local revenue source is the property tax, which is collected through the levying authority of each school district. Property taxes account for 70.5% of all local school revenues. The levy is a budget balancing mechanism; i.e., a district first calculates its total revenue needs and then subtracts other district revenues to determine the amount of the levy to request.

| | |
|---|---|
| Begin: | Total School Budget Requirements |
| Deduct: | Total Budget resources (local revenues other than property taxes, state and federal funds) |
| Equal: | Revenue Necessary to Balance Budget |
| Add: | Estimate of Tax Already Levied but not Received |
| Equal: | Total additional Property Taxes to be Levied |

Oregon uses a tax base system to determine school district levying authority. A tax base is a specific dollar amount established by the majority of district residents voting at a primary (May) or general (November) election in even-numbered years. Once a district has a tax base, it may levy that amount each year without additional voter approval. The tax base may grow automatically by up to 6% per year.

Of the 306 districts currently operating in Oregon, 269 have a tax base; 189 of these districts operated within their tax bases in the school year 1986-87. Thirty-seven districts have no tax base. Although a tax base may exceed the levy needed for the year, most commonly a tax base is either equal to or less than the district's needs. If a district has no tax base, or if the tax base is insufficient to fulfill the district's levy requirements, the district must seek a special levy, which may be either an annual or a serial levy.

School districts most commonly seek an annual special levy to fill a revenue gap resulting from an inadequate or nonexistent tax base. Alternatively, a district could seek a serial special levy in one of two forms: a regular serial levy or a tax rate serial levy. The length of the serial levy may vary, depending on the object of the revenue.

A regular serial levy authorizes a district to levy a set dollar amount over each of up to three years for operating funds and a maximum of ten years for nonoperating funds, such as construction projects. In a tax rate serial levy, voters approve a set tax rate that the school district may apply to the total assessed value of all property in the district in each of up to three years.

With the exception of a tax rate serial levy, Oregon voters approve or reject a levy for a dollar amount. Once voters approve the levy, the county assessor determines the tax rate by dividing the levy amount by the total assessed value of all taxable property in the district. The county assessor may not levy the full amount approved by the voters if certain offsets exist in the district. A tax offset is an amount from a statutorily defined revenue source, which the local taxing units, including school districts, collect directly as a dollar amount rather than through the property tax. An example of an offset are receipts from the Western Oregon Severance Tax.

The tax rates necessary to support a K-12 education program vary widely by school district. For 1986-87, the lowest rate for a K-12 program was $2.53/$1,000 assessed valuation in the Brookings-Harbor District in Curry County. The highest was $26.94/$1,000 assessed valuation in the Echo District in Umatilla County. Twenty-five of the 306 school districts require tax rates over $20/$1,000 assessed valuation while 30 are under $10/$1,000 assessed valuation. Numerous nonschool-related levies also affect tax rates, as do levies for capital improvements. One complication is that taxpayers in some areas must pay taxes to more than one school district to support a K-12 program; for example, a Hillsboro property owner pays property taxes to both the Hillsboro Elementary District 7 and the Hillsboro Union High District.

b. Counties -- The County School Fund (1.3%)

The County School Fund combines revenues from different sources, which are channeled through the county to school districts on a per-student basis. The four primary sources for the County School Fund are: (1) tax receipts from the school levy fund -- a statutorily required county contribution of the lesser of $10.00 per child between 4 and 20 years old or the minimum amount the county was required to levy in 1965-66; (2) federal timber revenues -- a county receives 25% of the receipts from the sale of timber on United States Forest Service land in the county and, of that, one quarter is dedicated to schools; (3) fines, fees, and forfeitures; and (4) voluntary contributions from the county, which consist mainly of payments from certain counties with federal timber revenues (in addition to the 1/16 already dedicated to the schools) or with O & C land timber revenues.(2)

c. Other Local Sources (20.1%)

Other local sources of school funding include investment earnings, food service sales, school activities income, textbook sales and rental, special programs, reimbursement of unemployment contributions, and receipts from state-managed timber lands.

2. State Sources (23.4%)

a. The Basic School Support Fund (BSSF) (21.0%)

State support comes primarily from the general fund appropriation known as the BSSF. The BSSF is the result of an initiative petition approved by Oregon voters in November 1946. Legislatures since then have made a varie-

2. O & C lands, which refers to land once owned by the Oregon and California Railroad Company, are now owned and managed by the federal government. A county that has O & C lands within its boundary receives 50% of the receipts of any timber sales on that land. Counties may use these funds for any purpose including schools.

ty of changes to the appropriation for, and distribution of, the BSSF. Appropriations as a percentage of current school operating expenditures (rather than total school resources, which is the 21.0% figure set forth above) have varied significantly over the years from a high of 40.5% in 1951-52, to a low of 22.3% in 1970-71. Since 1979-80, when the BSSF accounted for 38.70% of current operating expenditures, the amount has declined steadily to an estimated 30% for 1986-87.

The Legislature divides the annual BSSF appropriation into four categories: (1) transportation; (2) basic grants; (3) equalization grants: and (4) decline and growth grants.

Oregon school districts do not receive a uniform 30% of their operating budget from the state, however. For example, the Portland School District receives just 18% of its $4,217 per-pupil expenditure from the BSSF while the Mt. Angel School District receives 60% of its $2,655 per-pupil expenditure from the state. The percentage of a district's budget attributable to BSSF may vary significantly depending on transportation, equalization, and decline and growth grants, and the difference between the approved program, described below, and actual operation costs.

<u>(1) Transportation Distribution</u>

The transportation grant is set at 60% of all transportation costs incurred in the fiscal year two years prior to the distribution year. The State allocates the transportation funds among school districts according to each district's percentage share of total transportation costs in the year preceding the distribution year. Because of the two-year lag, actual state reimbursement of transportation costs is slightly less than 60%.

After allocation of the transportation funds, basic grants, decline and growth grants, and equalization grants, share the remaining appropriation. Beginning in 1982, the state divided the portion remaining after the transportation distribution to 70% for basic grants and growth and decline grants, and 30% for equalization grants.

<u>(2) Basic Grants</u>

The basic grant is a dollar amount of reimbursement provided to each district on a per-pupil basis. The amount is a flat percentage of a district's "approved program" expenditures for instruction, operation, and maintenance, not including food service, student body activities, capital outlay, or debt service. The percentage may vary from year to year depending on the amount of the appropriation.

In 1979, "approved programs" expenditures equaled average net school district operating costs less transportation; the State funded 40% of those expenditures. Beginning in 1979, however, the State set an upper limit on the amount of growth in the "approved program" that it would fund through the BSSF. The annual allowable growth was set at the lesser of 9% or the growth in the Portland Consumer Price Index. Because of growth in school spending above this limit, some districts now receive far less than the average 30% distribution. The approved program per student expenditure for 1986-87 is $2,796 compared to the actual statewide average of approximately $3,800.

(3) Equalization Grants and Decline and Growth Grants

Districts with schools of less than 100 students may qualify for higher net operating costs per student because of the increased costs of operating small schools. Funds for the "small school correction factor" come out of the amount available for basic grants.

In addition, decline and growth grants are funded from the basic grant amount. If a school district experiences a growth or decline in student population over the period from June to December, the State will provide a grant equal to the basic per-pupil grant for each student added and equal to 75% of the basic per-pupil grant for each student lost.

Equalization grants are intended to provide additional revenue to relatively poorer districts; i.e., districts with less relative property value. A district receives an equalization grant to bring its revenue to the level of its "approved program" if the combination of basic grants, county revenues and other receipts (such as federal timber revenue), and property tax revenues calculated at a minimum tax rate, are otherwise inadequate. The key factor is the minimum tax rate, which is determined by a formula using a district's property value and by the total amount of equalization funds available.

b. The Common School Fund (0.7%)

The Common School Fund is an irreducible fund established by the Oregon Constitution. The principal of the Fund must be preserved, but the investment income is dedicated to the support and maintenance of common school districts. Sources of revenue for the Fund include proceeds from the sale or rental of state lands, the sale of state timber, and oil and gas severance tax receipts. The State distributes interest earned on money invested from the Fund to the counties according to the number of children between the ages of 4 and 20. The counties then further distribute Common School Fund receipts to all school districts on a per-pupil basis.

c. Other State Revenues

Beginning in 1979, the Oregon Legislature implemented a program to provide state-funded property tax relief to residential property owners. The state provided partial reimbursement to homeowners and renters for property taxes attributable to school district tax base levies, special levies (up to an annually-adjusted statutory spending limit), and serial levies (not including capital construction expenditures). Although none of the state funds goes directly to schools, an indirect benefit occurs. Appropriations for this relief have declined steadily from $800 per owner-occupied residence in 1979 to $100 per owner-occupied residence in 1986. The program is expected to be discontinued permanently this legislative session.

Other state school funding sources include separate appropriations for special education programs, the BSSF school lunch match program, vocational education grants, and the driver training program.

3. Federal Sources (4.0%)

Most federal funding comes to school districts through the distribution of restricted grants-in-aid by the state. Those grants relate to specific programs such as school nutrition, vocational education, and handicapped education.

### B. Oregon's School Finance Problems

The problems resulting from the system of school finance described above can be summarized in two words: instability and inequity. Although intertwined, each of those problems is discussed separately below.

#### 1. Instability

The most visible symptom of Oregon's school finance problems has been the periodic closure of schools for lack of sufficient funds. Few disagree that these closures represent an inherent instability in the system. In the last decade, Oregon school districts have temporarily closed their doors on twelve occasions because of a levy defeat.

| School Year | School District | Number of School Days Closed |
|---|---|---|
| 1986-87 | Estacada | 11 |
| 1985-86 | Port Orford | 9 |
| | Sandy Elementary | 15 |
| 1983-84 | Lincoln County | 9 |
| | Junction City | 7 |
| 1982-83 | Brookings | 18 |
| 1981-82 | Estacada | 15 |
| 1977-78 | Redmond | 4 |
| 1976-77 | North Bend | 20 |
| | Eagle Point | 30 |
| | South Lane | 10 - 15 |
| | La Grande | 5 |

In addition, the Forest Grove School District now plans to close three weeks early following its levy defeat on March 31, 1987.

The reasons for the closures defy any pattern. Many factors influence voters from district to district and within a district to vote against a levy, including: the absolute level of the school district budget, per-pupil spending, the tax rate, the absolute tax bill and other factors such as personalities, school consolidation, and programs.

During the most recent closure in Estacada, district opponents of the levy cited most of these reasons. Some said that the district was "over-administered, over-priced and vastly inferior to the public schools they remember[ed]", and referred to "curriculum overloaded with non-essentials."(3) Others did not want their tax bills increased further, regardless of whether the reason was an increase in property value assessments or an increase in school spending.(4) Other opponents wanted the school superintendent and three school board members to resign.

Less visible than the closures, but almost as significant, are recent statistics on the number of schools that began a school year without the revenue deemed necessary by the school board to complete the year. In

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3. Willamette Week, January 22-28, 1987, at page 10.
4. Id.

1984-85, 44 school districts opened without approval of the levy deemed necessary to finish the year. Of those districts, 37 eventually obtained operating levy approval in September, 2 in October, 4 in November and 1 in December.

In 1985-86, although only 39 school districts began the year without the revenues deemed necessary to complete it, the approval process lasted through March. Only 9 of those districts obtained approval of the operating levy deemed necessary in September, 7 in October, 17 in November, 4 in December, 1 in February, and 1 in March. Thirteen districts gave up after several attempts to pass a special levy and simply reduced their budgets to fit within their tax bases.

This school year, 1986-87, 51 school districts opened without the operating levy deemed necessary. In September, 35 passed their operating levies, 10 did so in November, 1 in December, and 5 in January, including Estacada, which closed for 10 days in December for lack of funds. At the end of March, four school districts remained without the operating levy deemed necessary to complete the year.

Twenty-three of the districts that began the school year without the revenues deemed necessary to complete it did so for the third year in a row. Of the 189 school districts reported to be operating within their tax base this school year, 14 districts ceased voting on a special levy after one or more failures, 5 achieved a special levy after the start of the school year, and 3 still are considering closing before the end of the year.

Regardless of the reason, a school closure, or even the threat of closure, clearly has consequences. Among the consequences are: (a) legal considerations: (b) effects on students and school district personnel; (c) effects on the community; (d) impacts on economic development; and (e) indirect levy costs. Each of those consequences is discussed below.

<u>a.</u> <u>Legal Consequences of a School Closure</u>

At least two legal issues arise whenever a school district must, even temporarily, close its doors. First, because of the closure, the school district may be unable to comply with the state requirement of a 175-day school year. Second, the closure may result in a lawsuit against the state under the Oregon constitutional provision mandating a state system of education.

A school district that does not provide its students with at least 175 days of instruction is classified as "nonstandard," and the State Superintendent may declare the district ineligible for state BSSF distribution. All districts that have experienced closures to date have later filed satisfactory correction plans with the Superintendent of Public Instruction and avoided the substandard classification. In addition, if a district fails to develop a satisfactory plan and remains nonstandard for two consecutive years, the appropriate county commission must order that the district merge with an adjoining school district.(5) Within the last decade there have been no such consolidations. The problems such a merger could cause are beyond the scope of this report, but they are significant.

5. ORS 330.090.

Each school district closure also raises the possibility of a challenge under Article III, secion 3 of the Oregon Constitution, which requires that the legislature:

> . . . provide by law for the establishment of a uniform, and general system of common schools.

The Oregon courts have not yet decided a case under either this section or the equal protection clause based upon a claimed failure to provide a system of common schools because of school closure. Rather, the decisions regarding school finance to date have involved issues relating to inequality based on differences in per pupil expenditures in different districts.(6)

In Olson v. State of Oregon, 276 Or 9 (1976), the Oregon Supreme Court held that disparities in per-pupil expenditures did not violate the equal protection clause of the Oregon Constitution:

> . . . if the state requires and provides for a minimum of education opportunities in the district and permits the districts to exercise local control over what they desire, and can furnish, over the minimum.

Although the court's holding suggests that a failure to provide a "minimum or educational opportunities" because of a closure might violate the equal protection clause of the Oregon Constitution, the Attorney General so far has chosen not to interpret Olson in this way. In discussing levy failures, the Attorney General stated that the legislature is not necessarily required to fund the budget of a closed school district. He reasoned that "to require legislative support in such situations would be inconsistent with local control."(7)

Despite the Attorney General's interpretation, the legal consequences or closure remain undecided by the Oregon courts. It is possible the Oregon courts would decide that a school closure violates either Article III, section 3, or the equal protection clause, or both. The consequences of such a decision could include court-mandated state funding of a "minimum of education opportunities."

b. Educational Consequences of a School Closure

Aside from possible legal consequences, school closures also affect students and school district personnel. While the harm is impossible to

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6. Other states have considered the issue of inequality as well, but reached different conclusions than Oregon. In Serrano v. Priest, 487 p.2d 1241 (1971), the California Supreme Court held that a system of school finance that results in wide disparities in district funding and, thus, educational opportunities, because of its dependence on local property values is actionable under both the United States and California constitutions. Washington reached a similar result in a lawsuit brought in the mid-1970's. A claim that disparities in personnel, facilities, equipment, and textbooks violate constitutional requirements currently is pending in Texas in the case of Edgewood v. Kitby.
7. Redden, James A., Attorney General, Opinion No. 7472, Department of Justice, June 27, 1977.

quantify, your Committee assumed that a school closure, or the threat of a school closure, does harm the quality of education. Students of lower ability may suffer in particular from disruptions in the academic program. In addition, high school students bound for college may be unable to meet college entrance requirements if a closure period is protracted. Finally, as shown by the events such as the candlelight vigil Estacada students held on the night before the December 29, 1986 levy election, a school closure can affect the students.

Similarly, witnesses indicated that school closures and the threats of closure may make recruiting and retention of employees difficult. Low teacher salaries and low budgets for teacher aides or other personnel could contribute either to attrition among professional staff, or to strikes and other labor disputes. In addition, the school administration and school board often must divert substantial time and effort to assure funding for each school year and to plan for the failure to obtain funding that otherwise would be available for addressing issues concerning the educational program offered in the district. The need to seek an annual levy precludes long-term planning.

### c. Community Consequences of a School Closure

The string of levy defeats that produces a school closure, such as in Estacada and Forest Grove may cover a period of community strife. Articles concerning the Estacada closure in particular indicate community divisions. For example, one Estacada property owner wrote that the December levy defeat that closed Estacada's schools killed the community. He explained:

> Our standard of living and our personal pleasure are more important to us than educating the children or keeping our community alive . . . Many of us did not bother to vote. Those who did were ignorant of the truth and too indifferent to seek it. We didn't look at the itemized school budget. We didn't attend school budget meetings. Most of us didn't go the schools and visit the teachers behind their worn desks in classrooms needing paint. But most sadly of all, we didn't look for the truth in the obvious place. Had we looked there we surely would have found it: in the eyes of the children.(8)

### d. The Consequences for Economic Development

School closures also threaten one of Oregon's primary goals for the 1980's -- economic development. In November 1985, The Oregonian reported in an editorial that the Sunday New York Times had carried a story headlined: "Budget Problems Closing School in Oregon." As The Oregonian concluded: "That sorry headline is far more likely to hurt Oregon's long-term economic development prospects than Atiyeh's recent corporate flirtation is likely to help."(9)

Again in December 1986, the same national stories surfaced as the Estacada district closed. After touring the East Coast, then-Governor Atiyeh reported that many people had heard of the school closure and found it quite surprising. Both witnesses and newspaper articles showed a wide-

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8. "Voters Killed Community", The Oregonian, 12/16/86.
9. "Still Some Rope Left," The Oregonian, 11/29/85.

spread perception that Oregon's school finance system, and the closures it permits, damage Oregon's ability to attract new businesses and retain existing businesses, particularly those that rely on an educated work force.

### e. The Costs of Levy Elections

Related to the problems of actual school closures and the threat of school closures are the numerous and frequent levy elections a school district often must face to obtain levy authorization for just one year. State law provides for six election dates per year -- in March, May, June, August, September, and November. Nonetheless, a district may hold an emergency election whenever closure would result before one of the statutory election dates. Beginning in May or June preceding the school year to which the levy will apply, a district may hold many elections before receiving the authorization to levy funds necessary to operate for a full school year.

The direct costs of multiple levy elections can be considerable. Although county elections officers handle the actual conduct of the election, the county apportions all chargeable costs among the governmental units involved in the election, including school districts. Estimating districts' annual election costs is difficult because the total will vary depending on the number and types of governmental units participating in the election, the number of voters, and the number of precincts. For example, the six levy elections held by the David Douglas School District for the 1985-86 school year cost $46,112. The same number of elections for the Sandy School District Number 46 cost only $8,667.

Frequent elections also have indirect costs, such as the potential impact of many elections on voter interest. At the very least, traveling to the precinct to vote on a levy election three, four, or more times, is annoying. At worst, it can cause low voter turnout and election results that do not necessarily reflect the wishes of a majority of voters. The Estacada property owner quoted above alludes to some of those results.

### 2. Inequity

A less visible but nonetheless serious consequence of Oregon's current school finance system is inequity. Few people agree, however, on exactly what conditions constitute inequity in the system.

The statistics reveal a wide disparity among per-pupil spending and per-pupil assessed valuation in districts of all sizes. Assessed valuation can vary widely depending on the presence or absence of industry, tax-exempt property, individual wealth, or natural resources. For example, in the 36 districts with over 3,000 average daily membership (ADM), 20 operate outside a tax base and 16 within. Per-pupil spending in districts operating outside a tax base ranges between $4,491 in the Lincoln County School District and $3,210 in the Klamath County School District, while assessed valuation per ADM ranges between $426,551 in the Gresham Union High School District and $126,061 in the Hermiston School District. Average per-pupil spending was higher in the tax base districts over 3,000 ADM, but assessed valuation per ADM was higher in the districts operating outside a tax base.

Even greater disparities appear among the districts with between 1,000 and 3,000 ADM. Of those 51 districts, 23 operate outside of a tax base and 28 within a tax base. Per-pupil spending among the districts operating within a tax base ranges between $5,126 in the Rainier School District and $2,986 in the Rogue River School District. The disparity among districts operating outside a tax base is only slightly less, ranging between $4,623 in the Morrow County School District and $2,897 in the Ontario School District. The highest assessed valuation per ADM was $622,476 for the Sandy Union High School District and the lowest a mere $97,628 in the South Umqua School District in Douglas County. Average per-pupil spending was slightly higher in the tax base districts.

In relatively small school districts, between 100 and 499 ADM, the spreads widen even further. Among the 33 of these districts operating outside of a tax base, per-pupil spending ranges between $6,209 in the Arlington School District in Gilliam County and $2,626 in the Silvercrest School District in Marion County, while assessed valuations fall within a band of $525,747 in the Gervais Union High School District in Marion County and $104,802 per ADM in the Camas Valley School District in Douglas County. Among the 62 such districts with adequate tax bases, per-pupil spending ranges between $8,234 in the Jewell School District in Clatsop County and $2,401 in the Victor Point School District in Marion County, while assessed valuations fall within the band of $1,374,622 in the Nestucca Union High School District in Tillamook County and $82,424 ADM in the Mt. Vernon School District in Grant County. Appendix C shows the ranges for five categories of school districts.

The disparities are easy to see. What is far more difficult to determine is whether the disparities reflect, in fact, an inequity in the system, and what the consequences of that inequity may be. Possible connections between inequity and instability, and the effect of inequity on the quality of education, are discussed below.

### a. The Effect of Inequity on Stability

The Committee found no direct evidence that local voters consider the disparities indicated above when voting on a levy request in their particular school district. A 1983 Task Force reporting to the Educational Coordinating Commission concluded that school district residents often vote on levies totally unaware of the level of per-pupil spending, per-pupil valuation, or tax rate in a neighboring school district.

Statements by Estacada residents during that district's recent closure, however, indicate that awareness of the disparities, particularly in tax burden, may be growing. One of the members of CAL (Citizens for Affordable Living) complained during the levy fight that the property-poor districts received short-shrift from the system.(10) The Oregonian reported on December 28, 1986 that members of CAL "say they just want . . . the state's system of school finance to be more equitable and less of a burden on property tax payers." One member noted that Estacada's only industrial property base was timber and that the county redistributed revenues from that timber to all of the school districts in the county, regardless of the property wealth of those other districts, including Lake Oswego.

10. Willamette Week, January 22-28, 1987, at p. 12.

It is doubtful that the disparities between individual school districts directly play a major role in levy defeats. Information on the disparities often is buried in statistics and not readily discernible or commonly available. Indirectly, however, one cannot dismiss the effect on stability of the unequal distribution of property wealth among school districts. The lower the per-pupil assessed valuation, the higher property tax rates must be to support education. Combined with the other factors leading to levy defeats and, ultimately, school closures, a high property tax burden could result in a "no" vote.

b. The Effect of Inequity on Education

As noted above, the Committee did not delve deeply into issues concerning the quality of education. Notwithstanding the debate regarding proper measures for quality of education, the Committee concluded that the wide disparities in school district spending do affect the quality of education received in Oregon's school districts. One may dispute how much quality is affected by the inability of a property-poor district to levy enough to equal state average per-pupil spending. The conclusion that some effect occurs, however, is inescapable.

## III. DISCUSSION

### A. Criteria Necessary for an Adequate School Finance System

Your Committee determined that the two criteria identified in the charge -- stability and equity -- are, in fact, the major criteria critical to an adequate school finance system. Each of the criteria, its definition, and related implementation issues are discussed below.

1. Stability

For purposes of this report, a stable system of school finance is defined as one in which individual school districts receive sufficient funds to operate a basic educational program over a standard school year. For this purpose, a basic education is one that meets, but does not exceed, the substantive educational requirements set forth by the Oregon Department of Education. **The only two necessary criteria for stability are certainty of receipt and sufficiency of amount.** As discussed below, one can assure that these criteria are met through a variety of revenue sources and school finance systems.

The revenue sources available for school finance are the same as are generally available for most government services; i.e., receipts from an income tax, a sales tax, or a property tax. Each of those sources, by itself or in combination, presents at least three possibilities for instability.

First, collections under different forms of taxation may vary to greater or lesser degrees with changes in the economy. Generally, a property tax is considered less suceptible to economic swings, although assessed valuations and the collection rate may drop somewhat during recession periods. The sales and income taxes both are more closely tied to the economic condition of a state or locality.

Second, the imposition of those taxes in Oregon and other states usually requires a vote. Property taxes often are imposed by a vote of local residents. For property taxes levied under Oregon's tax base system, a vote is necessary only for initial authorization of the tax. Voters must consider special levies, however, for each authorization period, whether annual or every several years under a special serial levy.

The rates of sales and income tax generally are set by the state legislature, although in some states a local government may add to the tax rate for local services. Oregon does not have a sales tax and does not permit school districts to assess either sales or income taxes.

Examining only the imposition of these taxes, the property tax may be the most unstable, depending on the amount of school revenue subject to a local vote and the frequency of that vote. For example, a school finance system relying substantially on a property tax that is subject to voter approval every school year (i.e., no tax base) will be more unstable than a school finance system relying substantially on a property tax that is subject to voter approval only for the initial assessment (i.e., tax base).

Third, for income or sales taxes collected by the state or a local government other than the school district, however, the revenues may be subject to allocation before reaching school districts. During any allocation process, whether done by a state legislature or a local government, the decisions made could threaten both the certainty of receipt and sufficiency of amount of revenues for any particular school district.

Generally, the lower the amount of revenue subject to a vote (either by citizens or by representatives) for assessment and/or allocation, the more stable the school finance system. A school finance system in which the state dedicates a percentage of general fund revenues to education would be reasonably stable, since the legislature could not reduce the amount available through the budget process. The amount available would grow or decrease with any change in the revenues composing the general fund. On the other hand, a school finance system in which the revenue source is subject to frequent vote, or in which the revenue source is dedicated but declines with economic recessions or does not increase for inflation, would fail both of the criteria for stability.

2. Equity

"Equity" requires a comparison of the costs and benefits of a basic education with the costs and benefits of educational programs and choices beyond that threshold. A basic education benefits all of the citizens of a state, and the responsibility of providing that basic education should fall equally on all. The school finance system should not allow residents of a school district to offer less than a basic educational program, either voluntarily or involuntarily.

**Accordingly, for purposes of basic education, an equitable system of school finance is one which appropriately assigns the financial burden to match the benefit by funding a basic educational program on a statewide level.** Any one or any combination of the revenue sources discussed above under stability can assure equity, provided the assessment and allocation occur on a state, rather than a local, level. A locally assessed tax, whether sales, income, or property, would not achieve equity because it would shift the financing burden, according to the distribution of sales, property, or income in the state, without shifting the benefit.

The costs of educational decisions or programs that exceed a basic education should be borne directly by those receiving the benefit. For instance, if a school district in Eastern Oregon decides to offer its students an expansive agricultural program, residents of that district should fund that choice. Similarly, if a small school district incurs higher administrative costs because of a decision to remain small, those costs should be borne by residents of the district. In this manner, local control is secured over decisions that are properly local. Again, any tax may be used for this purpose, provided it is spread only on a district-wide basis. As noted previously, a local sales or income tax is not now an option for schools in Oregon.

## B. Applying the Criteria to Oregon

### 1. Oregon's Current School Finance System is Not Stable

Oregon's school finance system fails the criteria for stability because, for those districts without a tax base or without an adequate tax base, neither certainty of funding nor sufficiency of amount exists. Even for districts with adequate tax bases, the 6% growth allowed may prove inadequate during times of high inflation, threatening the sufficiency of the amount of funding received in those districts.

Local property taxes currently provide just over 50% of school resources collected through Oregon's local property tax. While the property tax revenues collected by school districts are dedicated to education and not subject to further allocation, they suffer from instability caused by economic conditions and the necessity of frequent voter approval. The instability in the amount of taxes approved and collected results in instability in school funding.

As a general rule, property tax collections do not vary as greatly with changes in the local economy as other taxes. Unlike statewide income taxes or sales taxes whose relative burdens fall as income and consumption decrease, property taxes are relatively insensitive to changes in the economy. Nonetheless, Oregon's recent economic recession has created unusual pressure on the property tax structure. Although actual property values may have fallen in some communitites hard hit by the recession, total tax assessments may have changed only slightly, if at all. The political pressure resulting from stable or rising property tax bills and falling incomes was among the reasons why voters considered property tax limitation measures on six occasions since 1968.

In addition, school districts without tax bases or without adequate tax bases must place a special levy before voters, usually on an annual basis, to obtain the funds necessary to operate their schools. As discussed above, some school districts require 5 or 6 elections to achieve voter approval. On the twelve occasions detailed in Section II, the districts did not obtain voter approval in time to avoid closing until the next available election date.

The BSSF also plays a role in the lack of stability. It is primarily funded by the state's income tax collections, which have varied more with the state's economic fortunes over the last decade than property tax collections. Because none of the funds are dedicated, the Legislature is free to change the portion of the general fund allocated to the BSSF. As noted, those allocations have steadily declined since 1979, placing even greater pressure on the local property tax.

The last major contributor to the instability of Oregon's current system of school finance is federal timber revenue. Although federal timber receipts comprise only a small portion of total school revenues (1.3%), timber revenues are a major funding source for some districts. The revenues can vary greatly year to year, causing wide swings in the amount of the required property tax levy. A sudden increase in property taxes caused by a drop in timber revenues could produce a closure if residents are unable to adjust quickly enough to the change.

### 2. Oregon's Current School Finance System Is Not Equitable

Oregon's current system of school finance fails the equity criterion because the responsibility of funding a basic educational program is not spread on a statewide basis. Some school districts choose an educational program with below average per-pupil spending, even though the assessed value of property in the district is sufficient to fund at least an average per-pupil spending level at an average property tax rate. Other districts must provide a below average educational program, or bear a disproportionate property tax burden, because of the absence of assessable property in their districts. The equalization portion of the BSSF appears to have little impact on this inequity.

Inequity exists because, to a large extent, the burden of funding education is spread according to the distribution of assessable property in the state, rather than according to ability or responsibility to pay. It is true that a person may choose to live in a given school district for reasons indirectly related to the assessed value of the district, such as its rural nature or industrial base. Such decisions do not change the benefit/burden of funding a basic educational program, however.

## C. Applying the Criteria to Oregon's Previous and Current School Finance Reform Efforts

### 1. Past Attempts at School Finance Reform

Recent efforts to reform Oregon's school finance system date back to at least 1969, when the Legislature referred a sales tax measure designed to provide property tax relief and ensure a more stable system of school finance. The measure failed. Since then, as shown in the chart below, the Legislature has referred several other sales tax and tax reform measures to the voters, along with several proposals to update or secure school tax bases.

| Year | Measure | Yes | No |
|---|---|---|---|
| 1968 | Property Tax Limitation | 276,451 | 503,443 |
| 1969 | 3% Sales Tax | 65,007 | 504,274 |
| 1970 | OEA Updated Tax Bases | 223,735 | 405,437 |
| 1972 | No Property Tax for Schools | 342,885 | 558,136 |
| 1973 | McCall Plan | 253,682 | 358,210 |
| 1973 | Increased BSSF | 136,851 | 410,733 |
| 1977 | Safety Net | 112,570 | 252,061 |
| 1978 | Property Tax Limitation | 424,029 | 453,741 |
| 1980 | Property Tax Limitation | 412,781 | 722,089 |
| 1982 | Property Tax Limitation | 502,836 | 515,626 |
| 1984 | Property Tax Limitation | 599,424 | 616,252 |
| 1985 | 5% Sales Tax | 183,307 | 643,022 |
| 1986 | 5% Sales TAx | 234,804 | 816,369 |
| 1986 | Property Tax Limitation | 424,077 | 559,947 |

These recent proposals are described below, with an analysis of their effectiveness as measured against the criteria for stability and equity.

a. Sales Tax Measures

The Legislature referred a plan to voters in 1969 to: (1) adopt a 3% sales tax; (2) dedicate the funds to property tax relief; and (3) establish new tax bases for all school districts equal to the prior year's operating budget plus 5%. The measure failed almost 8 to 1 (504,274 to 65,007). In 1983, the Legislature again referred a sales tax plan to voters, but the Supreme Court ordered the measure removed from the ballot because the ratification process was unconstitutional.

The legislature renewed its sales tax efforts in 1985 and referred to voters a plan to: (1) adopt a 5% sales tax; (2) dedicate the proceeds to schools, using 85% to offset property taxes and 15% to lower income taxes; and (3) establish new tax bases for all school districts, limited to 3% growth per year. The measure failed by a vote of 3.5 to 1 (643,022 to 183,307).

Most recently, the Oregon Education Association (OEA) placed a sales tax measure on the 1986 ballot through the initiative process. That measure proposed to (1) adopt a 5% sales tax; (2) dedicate the proceeds 70% to schools and community colleges, and 30% to property tax relief for owner-occupied homes and renters; (3) establish new tax bases for all school districts, limited to 6% growth per year; and (4) limit overall property taxes to 1.5%. It too failed, by a vote of 816,369 to 234,804 (3.5 to 1).

Except for the 1969 sales tax measure, which dedicated the proceeds to property tax relief but not to schools, the proposed measures substantially satisfied the criteria for stability. Receipt of the funds by schools would have been certain, and the sufficiency of the amount generally assured. In times of low inflation, the sales tax portion of school revenues would not increase greatly. On the other hand, increases in school operating costs similarly would not increase by much and the 3% growth allowed in the property tax portion would help cover non-inflationary increases in costs. In times of high inflation, sales tax proceeds should increase commensurate with inflation, providing more revenue for rising costs. The 1969 measure eliminated the uncertainty of continual voter approval of levies, but gave the legislature the power to decrease school appropriations. Thus, it did not totally meet the stability criteria.

None of the measures totally satisfied the criterion for equity. To the extent they proposed to establish a staewide source for a substantial portion of school funding, the measures would have eased the inequitable distribution of the benefits and burdens of education. None of the proposals attempted, however, to match the statewide source with the provision of basic education, while leaving local districts free to levy for additional programs.

b. Property Tax Limitation Measures

On six occasions since 1968, Oregon voters have considered measures to limit property taxes. The measures were defeated as shown in the chart below. In addition, the Oregon Farm Bureau placed on the 1972 ballot a measure designed to ban the use of property taxes for school operating costs. That measure failed 558,136 to 342,885 (1.63 to 1). All of these proposals fail the criteria for stability and equity; they merely would have removed or limited the use of the property tax without supplying any alternate revenue.

| | | | | |
|---|---|---|---|---|
| 1968 | 503,443 | to | 276,451 | (1.82 to 1) |
| 1978 | 453,741 | to | 424,029 | (1.07 to 1) |
| 1980 | 722,089 | to | 412,781 | (1.74 to 1) |
| 1982 | 515,626 | to | 502,836 | (1.03 to 1) |
| 1984 | 616,252 | to | 599,424 | (1.03 to 1) |
| 1986 | 559,947 | to | 424,077 | (1.32 to 1) |

### c. The 1973 McCall Plan

The McCall Plan submitted to voters in 1973 proposed fundamental changes in taxes and school finance. The plan included a 30% increase in personal income taxes, a graduated corporate excise tax and a business profits tax, an absolute limit of $2/$1,000 assessed valuation on school property tax levies for operating costs, a statewide tax on business property, and state funding of approximately 90% of school operating costs. Voters rejected the measure by a vote of 358,210 to 253,682 (1.41 to 1).

This comprehensive plan would have met the criteria for stability and equity to a great extent by shifting most of the responsibility for funding basic education to the state, using revenues derived from statewide sources. Thus, it would have assured both certainty of receipt and sufficiency of amount, as well as a far greater degree of equity. It is unclear, however, whether the proposal would have preserved the ability of school districts adequately to levy property taxes for programs above those funded by the state.

In 1973, the Legislature also referred to voters a plan to increase state support of schools from 30% to 43% by increasing personal income and corporate excise tax rates. While that proposal would have decreased reliance on the property tax, and thus increased stability, it would neither have assured receipt of sufficient funds for a basic program nor markedly changed the inequity in the school finance system absent, perhaps, use of all the extra state funds for equalization.

### d. Tax Base Measures

In 1970, the OEA placed a measure on the ballot, by initiative, designed to update school tax bases to the prior year's budget, plus 6%. The measure precluded levies outside of the tax base but allowed two votes per year on increases in the tax base. The measure failed 405,437 to 223,735 (1.81 to 1).

In 1977, the Legislature referred to voters a "safety net" proposal to allow a school district to levy the prior year's operating levy plus 6% if two elections failed, except that the allowed levy could not exceed a defeated levy. The measure lost 252,061 to 112,570 (2.24 to 1). Although both measures would have substantially met the criteria for stability by severely limiting the portion of school funds subject to an annual vote, neither would have had any impact on the inequity of the current system.

### e. Statutory Measures

Aside from the constitutional attempts to achieve school finance and tax reform described above, the Legislature also has adopted several statutory schemes designed to lessen the incidence of school closures. Those include:

1. Changes in ballot wording. The legislature regulates the content of measure explanations for levy elections. By changing the required content of levy explanations, the legislature can attempt to improve the chances for levy passage. The legislature has changed the explanation requirements at almost every session over the last 15 years.

2. Special elections. The legislature adopted ORS 255.355 to allow districts to hold a special election if closure would result before the next election date. A special levy request may not exceed the amount of the last defeated request.

3. Serial levies. The 1977 legislature authorized districts to propose to voters serial levies of up to 3 years.

4. Tax base elections. The 1977 legislature also required that, beginning in 1980, all school districts levying outside of their tax bases in an odd-numbered year seek an updated tax base in the following year. Paired with the A-B ballot requirements discussed below, this law helped increase the number of school districts with adequate tax bases from approximately 30 in 1978-79 to 189 in 1986-87.

5. The A-B ballot. Under the A-B ballot, a levy request appears in two parts. Part "A" is the amount necessary to fund the district's operating costs up to an annually adjusted statutory spending limit; part "B" is any excess absent the spending limit. The State funds property tax relief on the "A" portion but not on the "B" portion. Although the percentage of state-funded property tax relief has declined steadily since the program began, in the early years the program was extremely successful in encouraging new tax bases.

Because of their limited nature, the statutory provisions did not change the equity of the current school finance system. The last two described above, however, had a dramatic impact on stability by increasing almost six-fold the number of school districts with tax bases.

### 2. Current Attempts at School Finance Reform - The 1987 Safety Net Ballot Measure.

On May 19, 1987, Oregon voters will consider the latest ballot measure that affects school finance, the "Safety Net". A report on this ballot measure appears as Section VIII, following the Majority and Minority recommendations for long-term school finance reform in Oregon.

## IV. MAJORITY CONCLUSIONS

### A. Principles for Change to Oregon's Current System of School Finance

Whether or not the ballot measure passes, Oregon must turn its attention to developing a stable and equitable system of school finance. Applying the criteria explained in Section III, A above, your Committee has developed six principles that should guide the development of a new system of school finance in Oregon. Principles 1, 2, and 3 establish equity and stability. Principles 4, 5, and 6 address the preservation, and limitation, of local control. New funding sources are discussed below in Section IV, B. Each of the principles is discussed below.

1. **All of the revenue necessary for each school district to provide a basic educational program should be collected on a statewide basis.**

This fundamental principle lays the foundation for an equitable system of school finance by appropriately allocating the burden of financing basic education to all citizens of the state. It does not completely assure equity, however, nor does it completely address stability. To achieve fully both stability and equity, the revenue necessary to fund basic education, hereinafter called the "Oregon Education Fund," must satisfy certain requirements. These are presented below.

2. **The Oregon Education Fund should:**

   a. **use revenues assessed at a rate or rates that do not distinguish by geographic area;**

   b. **be constitutionally dedicated to financing education;**

   c. **incorporate all current miscellaneous local revenues, such as the County School Fund;**

   d. **incorporate all current state contributions, such as the BSSF and the Common School Fund, and establish an appropriate growth factor for the dedicated general fund appropriations such as the BSSF; and**

   e. **offset current local property tax collections to the extent of any new revenue source or sources included in the Oregon Education Fund.**

The most important components of this list for achieving stability and equity are the geographically uniform rate required for revenue sources incorporated in the Oregon Education Fund and the dedication of the entire fund, including the current general fund appropriation, the BSSF, to education.

To achieve equity, the Oregon Education Fund should be assessed on some fair basis -- whether income, property, sales, or other -- that does not distinguish among taxpayers according to the school district in which they reside. The actual tax rate used may be uniform, as in the case of a statewide property tax or sales tax, or graduated, as in the case of a statewide income tax. Lack of geographical distinctions will ensure that financing of basic education is equitable among school districts. Further steps may be necessary to ensure that financing of basic education is equitable among individuals.

The offset of current local property taxes with any new revenue source or sources in the Oregon Education Fund also is necessary to achieve equity by replacing all local financing of basic education with the Oregon Education Fund.(11) This principle is perhaps even more important for

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11. The Minority of your Committee proposes that spending limitations be placed on governmental units other than schools to ensure that those units do not increase property taxes to fill the void left by the offset of the Oregon Education Fund. Although this proposal has merit, the Majority of your Committee believes that it goes beyond the requirements for school finance reform and could distract from that goal.

political reasons because it will relieve some of the pressure for property tax limitation, particularly in high property tax districts by decreasing the property taxes required to support schools in those districts. The offset is not without problems, however. It will have greater value to some districts than to others. In other words, some districts will "lose" and some districts will "gain." While this will not be popular in the districts with high assessable property value, only two options appear: to adopt a new revenue source or sources not offset against current property taxes or to do nothing. Oregon's voters surely would reject an entirely new tax and your Committee found the alternative of inaction not acceptable.

Stability requires that school districts receive a sufficient amount to provide a basic educational program and that receipt of that amount be certain. The Oregon Education Fund will alleviate the uncertainty of both sufficiency and receipt that some districts now face because of the need to obtain annual voter approval of a substantial portion of their budgets. Dedication of all revenue sources incorporated in the Oregon Education Fund will help assure that the financing of basic education remains stable.(12)

The Oregon Education Fund can provide a sufficient amount only if it includes appropriate growth measures. For current state revenues, such as the BSSF, incorporating a growth factor into the dedicated portion will help assure sufficiency. The change in statewide per capita income is a possible growth factor for this portion of the Fund. For the new revenue source or sources incorporated in the Fund, sufficiency could be met by dedicating the source itself to education. For example, if the new revenue source was a statewide property tax at a set rate, revenues from the application of the set rate would grow according to the appreciation of the property in the state. Similarly, receipts from a sales tax would grow with increases in gross taxable sales.

To the extent legally possible, your Committee recommends incorporation of current miscellaneous local sources into the revenues available for basic education. The extent of these sources varies greatly from county to county, depending to a large extent on the presence of federal, state, or private timber lands in the county. Variances in the revenue available for basic education based on the geographic wealth of a county is no more equitable than variances based on the geographic wealth of a school district.

Your Committee further recommends that the Oregon Education Fund incorporate the state contribution to basic education, the largest component of which is the BSSF. Amounts for education currently appropriated from the general fund should be dedicated to basic education and given an appropriate growth measure to ensure that the actual contribution does not decline over time. Continuing this source will ease the burden that a new revenue source or sources must carry. In addition, the income tax, which is the largest single contributor to the BSSF, provides a valuable diversity to financing basic education.

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12. Although the Majority of your Committee believes that the Oregon Education fund must be clearly dedicated to education, we do not accept the Minority's recommendation that the revenue source or sources in the Oregon Education Fund be used only for education. Such a limitation could prove unduly restrictive both for education and all other governmental services.

**3. The Oregon Department of Education should distribute the Oregon Education Fund among school districts on a per-pupil basis.**

Allocation of the revenues collected to finance basic education will require the state both to define basic education and to set the initial per-pupil grant from the Oregon Education Fund. Dividing the Oregon Education Fund in a given year by the number of students in that year would establish subsequent per-pupil grants for basic education.(13) The Oregon Department of Education should consider continuing the adjustments presently made in the BSSF for school districts with a growth or decline in student population. In addition, the Department should consider continuing to handle transportation on a separate basis.

Your Committee did not attempt either to define basic education or to determine an appropriate initial per-pupil grant. For the definition, your Committee suggests that the state begin with the basic educational requirements that already exist for both elementary and high school programs. In addition, the state could examine the prerequisites at Oregon's colleges and universities. To determine appropriate per-pupil spending, an anlysis should be made of current per-pupil spending in other states, particularly those in which the state finances basic education. The BSSF's approved program basic grant also could provide useful information.

**4. School districts should retain local control over how they provide a basic educational program with the per-pupil grant provided by the state as long as they demonstrate to the state that the program satisfies all state requirements.**

The state should allow individual school districts considerable flexibility in how they provide the basic educational program with the Oregon Education Fund per-pupil grant. For example, if a school district chooses to provide the basic program with fewer teachers but at higher salaries, it should have the option of doing so. To facilitate this discretion, the state would require each district to budget its basic education grant and demonstrate to the Department of Education that the budgeted program meets the requirements of basic education.

This discretion will help preserve local control over educational decisions. Although local control should not be allowed to result in school closures or something less than a basic educational program, your Committee believes that local control over the implementation of basic education is valuable and worth preserving, subject to check by the state.

**5. School districts should retain local control over, and use local financing for, any educational programs not included within basic education and over any educational decisions requiring more than the state per-pupil grant to provide a basic educational program.**

An equitable school finance system should allow local districts to decide locally to offer their students more than a basic education and to finance that decision with local sources. Similarly, the school finance system should allow local residents to finance locally any extra costs incurred in providing a basic education because of a decision to preserve a

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13. This procedure should minimize the Legislature's involvement in the collection, allocation, and distribution of the Oregon Education Fund over which the Minority expresses concern.

small school district where alternatives exist. To the extent of these programs and decisions, the existence of relatively high value assessable property would continue to influence the ease or hardship faced by a district in funding supplemental programs. This "inequity" may be offset to some degree by the intangibles that influence where people decide to live.

**6. Local school boards should not have the authority to close schools upon their determination that insufficient funds exist to maintain a school program.**

Because the school finance system will guarantee each school district sufficient funds to offer a basic educational program, your Committee recommends that the state remove local authority to close schools. Thus, closing school would not be an option if the school board failed to pass the levy authorizing supplemental educational programs or decisions.

B. Revenue Sources

**The Majority of your Committee identified a sales tax and a statewide property tax as the two most feasible new sources of revenue for financing basic education, but does not recommend either one or exclude the possibility of other sources. This matter should be studied further in conjunction with a review of Oregon's overall tax system to ensure that the burden of financing basic education is spread equitably among individuals, as well as among school districts.**

**A statewide sales tax is one option for a new revenue source to fund basic education.** The City Club has long supported adoption of a sales tax in Oregon, and many of the Committee members also preferred this alternative for financing basic education. If proposed as the new revenue source, your Committee suggests that the sales tax proposal: (1) include the components stated in the sales tax proposed by the Legislature in 1985 or outlined by the City Club in the 1985 Model Sales Tax Report; (2) constitutionally establish a rate, subject to change only by referendum or initiative; (3) dedicate the proceeds to financing basic education; and (4) preclude any other state or local sales tax.

Given the recent history of sales tax proposals submitted to voters in this state, your Committee is unsure what reaction a new proposal would receive. On the other hand, the rejections may be attributable to elements of the various sales tax proposals, rather than to the concept itself. A sales tax assuring voters of sufficient control over its assessment and expenditure could achieve approval.

**The Majority of your Committee also suggests that a statewide property tax seriously be considered as a new revenue source for basic education.(14)** The state could assess the property tax using a set tax rate, rather than Oregon's traditional tax base system. Thus, receipts under the

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14. The Minority of your Committee recommends that a statewide property tax not be considered because of opposition by property tax limitation proponents. The majority did not accept this recommendation because we believe that a statewide property tax at least deserves study before being rejected. If study shows that adoption of a statewide property tax would lower the property tax bills of many Oregon residents, the tax could be quite attractive. In addition, unlike the sales tax, property taxes remain deductible under the new federal tax code.

property tax would grow as property appreciates throughout the state. Assessing the statewide property tax according to a set rate would avoid the 6% growth factor that has made adoption of tax bases so difficult in some school districts. In addition, property owners could calculate their property tax assessments each year using solely their assessed valuations. Although a detailed technical review would be necessary, a statewide property tax, substituting for the current local property taxes used for schools, could have appeal. The Legislature should direct the Legislative Revenue Office to develop the financial models and projections needed to analyze adoption of a statewide property tax for incorporation in the Oregon Education Fund and examine the revenue shifts that would occur from offsetting this revenue against current local property tax contributions to education.

## V. MAJORITY RECOMMENDATIONS

1. **The Majority of your Committee recommends that the following six principles guide the Oregon Legislature, the Oregon Department of Education, other public leaders, and local school districts and school boards in designing a new system of stable and equitable school finance for Oregon:**

   **a. All of the revenue necessary for each school district to provide a basic educational program should be collected on a statewide basis.**

   **b. The Oregon Education Fund should:**
   1. **use revenues assessed at a rate or rates that do not distinguish by geographic area;**
   2. **be constitutionally dedicated to funding basic education;**
   3. **incorporate all current miscellaneous local sources, such as the County School Fund;**
   4. **incorporate all current state contributions, such as the BSSF and the Common School Fund; and establish an appropriate growth factor for the dedicated general fund appropriations such as the BSSF; and**
   5. **offset current local property tax collections to the extent of any new revenue source or sources incorporated in the Oregon Education Fund.**

   **c. The Oregon Department of Education should distribute the Oregon Education Fund among school districts on a per-pupil basis.**

   **d. School districts should retain local control over how they provide a basic educational program with the per-pupil grant provided by the state as long as they demonstrate to the state that the program satisfies all state requirements.**

   **e. School districts should retain local control over, and use local financing for, any educational programs not included within basic education and over any educational decisions requiring more than the state per-pupil grant to provide a basic educational program.**

   **f. Local school boards should not have the authority to close schools upon their determination that insufficient funds exist to maintain a school program.**

2. **The Majority of your Committee recommends serious consideration, by the legislature or any taskforce appointed by the Governor, of a sales tax**

**and a statewide property tax as the two most feasible new sources of revenue for financing basic education. (The Majority does not recommend either one or exclude the possibility of other sources of revenue.) Further study of new revenue sources should be done in conjunction with a review of Oregon's overall tax system to ensure that the burden of financing basic education is spread equitably among individuals, as well as among school districts.**

**Respectfully submitted,**

**John Bauman**
**Stephen Cook**
**Donald N. Johnson**
**Deborah Sievert**
**Don C. Weege**
**Jo Zettler, and**
**Pamela Grace Rapp, Chair**
**FOR THE MAJORITY**

## VI. MINORITY DISCUSSION AND CONCLUSION

### A. A Statewide Property Tax Should Be Eliminated from Immediate Consideration.

Any serious consideration of a statewide property tax will divert the energies of the legislature as there is literally no chance that such a reform could succeed in the immediate future. Even the introduction of such a concept into the debate could mobilize property tax limitation forces, whose efforts have been the primary threat to public education in Oregon in recent years.

An unnecessary urgency to solving the school closure issue has been imparted by the state political leadership. Only 12 school districts out of a total of 306 statewide (4% of total districts) have closed during the past 10-15 years because of tax base or levy failures. In the 1986-87 school year, only 6,100 students (in the Estacada and Forest Grove School Districts) have been affected by school closures due to levy failures out of 426,000 students statewide, i.e., 1.4% of total students have been affected.

Given the perceived crisis in educational funding and the rush towards change, even longtime opponents of a sales tax may now be willing to work for adoption of a sales tax similar to the legislative or the City Club proposal. The Minority believes that the majority of voters in this state recognize (or can be led to recognize) that something must be done about school finance -- they just do not know what that "something" should be.

Support for property tax limitation dwindled as the public became aware of its dangers to education. Perhaps if recent sales tax proposals were reexamined in accordance with the principles outlined in the Majority report, support for a sales tax would grow rather than continue to shrink. The Minority believes that the Majority's suggestion for consideration of a statewide property tax may jeopardize a potential developing acceptance of a sales tax.

B. Concrete Proposals by the City Club Are Necessary

The Majority goes a long way toward contributing to a school finance reform solution by recommending guiding principles for change. However, it leaves the discovery of the "nuts and bolts" of a solution to the legislature -- the very group that has failed since the mid-1970s to avoid the school closure problem and the panic caused by property tax limitation measures.

An opportunity exists for leadership by the City Club in presenting specific, concrete proposals for citizen action. All major school finance changes in Oregon have been the result of initiative proposals, not legislative enactments.

C. Additional Guiding Principles Are Needed

The principles proposed to guide future legislative considerations are incomplete. Two additional principles are necessary.

1. Government Spending Must Be Limited

The public requires and deserves some guarantee that any new school finance plan is not a smokescreen to increase costs to the taxpayer for other areas of government. If education's 60% of the property tax dollar is eliminated or reduced by a new statewide source, other general government expenditures could grow to fill the gap.

The Minority believes that the public may be willing to impose a new tax upon itself to fund public education only if guaranteed that other government units will not move into the void. "Other" government can be controlled through specific spending or tax limitations. The Minority believes that general governmental spending limitations should be included as a principle guiding future legislative considerations.

2. Collection, Allocation and Distribution Must Be Consistent

Basic School Support Fund (BSSF) appropriations have fluctuated wildly over the past 10 years. BSSF has swung from 28.5% to 38.5% of the "approved expenditures" and many school districts have closed because their revenues have fluctuated to a similar degree. It has been argued that the State BSSF furnishes only 19% of the cost of basic education to the Portland Public Schools, while 30% is the porportion of total expenditures statewide paid by BSSF. These discrepancies are the result of biennial legislative actions, such as appropriations, changes in statutory definitions or variations in budget procedures and local revenue sources.

A great deal of discussion and consideration must be given to the limitations of the legislature's ongoing discretionary role. Public education is too important to be a major political issue every biennium. The legislature's discretionary role should be limited in the collection, allocation and distribution of statewide funds.

3. The New Statewide Source Should Be Collected and Expended Exclusively for Public Education

Historically, the Oregon scheme of school finance has rested on a protected source basis. Funding for schools has been treated separately and uniquely, with its own source of funding. The system fails when that unique source of funds becomes inadequate (fails to generate adequate amounts of money) or becomes diluted by demands of other governmental units (as has the property tax).

Constitutionally "dedicating" the new statewide source may not insure its inviolability. No other public body should be allowed to share the source either by placing an additional tax upon it, or by receiving a portion of the proceeds. For example, if a new statewide sales tax is introduced, it should be collected and expended solely for education.

The property tax illustrates the problems that occur when a revenue source is used for more than one purpose. Different beneficiaries are forced to compete for each increase in the property tax dollar. Education suffers as a result of that competition. Similarly, the recipients of other revenues such as federal timber receipts must allocate those funds between education and other purposes.

The Minority believes that the new statewide source must be available only for public education and, to the extent possible, that no sources be used that also are used for other government services.

## VII. MINORITY RECOMMENDATIONS

**1. The Minority recommends that Majority Recommendation No. 1 be amended to add the following principles:**

   **a. No other state or local governmental unit shall be allowed to collect or expend revenues from the new statewide revenue source for basic education. The Oregon Education Fund shall be collected and expended exclusively for basic education.**

   **b. Any intentional or inadvertent tax relief such as income or property tax reductions, created by educational finance reform, should guarantee insofar as possible that such relief is permanent or long term.**

**2. The Minority recommends deletion, in Majority Recommendation No. 2, of the statewide property tax as an alternative for future consideration.**

**3. In addition, the Minority recommends that the City Club continue this Committee's inquiry by authorizing a new Study Committee. The direction of the study should be to consider further the financing of public secondary and elementary education in Oregon under the guiding principles recommended by this Committee and under such other criteria as the new Study Committee might identify. The new Study Committee should be directed to broaden its analysis to reform of the general governmental finance system and to prepare for debate by the City Club the key features of an initiative proposal or a recommendation that the present system of school finance be retained or modified. Any proposal should be presented in adequate time for placement on the general election ballot in November, 1988. The study should be conducted independently of, but with due consideration of, the study promised by the Governor.**

**Respectfully submitted,**

**Robert Rindfusz**
**FOR THE MINORITY**

## VIII. REPORT ON STATE MEASURE NO. 2
## (May 1987 School "Safety Net" Measure)

Title: "Continues Existing Levies to Prevent School Closures: Tax Base Elections"

Question: "Should school districts be allowed to continue same property tax levies last approved by voters; submit annual tax base proposal?"

Purpose: "Authorizes school districts to levy property taxes for operations no greater than the amount levied for operations in the prior year, without additional voter approval. Implements law requiring that, if a school board finds that schools may close for lack of funds, the board shall authorize levy and adjust the district budget to maintain standard schools.

"Sets third Tuesday in May as annual tax base election date for school districts."

### A. Introduction

On May 19, 1987, Oregon voters will consider the "School Safety Net" measure, a constitutional amendment that allows a school district to levy the amount levied for operating purposes in the preceding year. The proposed amendment also changes the timing of the submission of new tax bases to voters, from twice a year in even-numbered years to once a year. The amendment would be implemented by legislation, already passed by the legislature as Senate Bill 278.

The safety net would work as follows: any school district desiring to levy outside of its tax base for a given school year could submit a special annual or serial levy to voters at March, May, June, and August election dates before that school year and in September of the school year. If the district does not receive levy authority on or before the September election date, the school board would determine whether the school district had sufficient funds to operate for a standard school year without the special levy. If it did not, the district must determine and certify to the county assessor the prior year's operating levy (the total amount levied by the school district in a prior year less any levy for bonded debt or any capital construction serial levy).

A district that used the safety net levy authority must then revise its budget to operate for a standard school year within the resources available to it, including the levy. The district could not submit any further levies to the voters to obtain operating funds for that school year.

The safety net is designed to work regardless of whether a district has a tax base. If a district does not have a tax base, the safety net levy in each year would be simply the prior year's levy. If a district does have a tax base, the safety net levy would decrease each year by the amount of the 6% allowed growth in the tax base. Thus, the safety net would assure voters that the taxes levied for schools would not increase without a vote. Pursuant to the constitutional amendment allowing an annual tax base election, Senate Bill 278 sets that election for the third Tuesday in May.

## B. Arguments Advanced in Favor of the Measure

1. The safety net would prevent school closures by providing school districts with the authority to levy automatically the prior year's operating levy.

2. The measure would allow districts to submit tax proposals more frequently and in time to prepare for the following school year.

3. The safety net would never require district residents collectively to pay more property tax for school support than voters approved at a prior election.

4. The safety net would ease passage of new tax bases and special levies because: (a) school districts would ask voters to approve only the amount above the level of the safety net levy; and (b) voters would be concerned that a district would be compelled by the safety net to remain open and operate at an inadequate level of funding.

5. The amount of the safety net levy would not be decreased by any increases in state school support or federal timber receipts.

6. The measure would keep schools open while public leaders and the legislature study and prepare a new school finance system in Oregon.

7. The measure, if approved, would be the first voter-approved change in Oregon's school finance system for many years. This could provide momentum to spur further changes.

8. The safety net would eliminate the negative nationwide press coverage of Oregon's past school closures and the accompanying obstacle to economic development.

## C. Arguments Advanced in Opposition to the Measure

1. Because the safety net legislation would require schools to remain open, school districts operating under it could be forced to operate under a levy several years old, which may require an unrealistically low budget. The safety net includes neither any provision for inflationary cost increases nor adjustment for increases in student population.

2. It is unlikely that a school district remaining under the safety net for any period of time could maintain the same educational program it had before falling into the safety net.

3. The safety net would limit school districts to the amount of the prior year's operating levy regardless of the level of federal timber receipts or other revenue sources reflected in the amount of that levy. Decreases in those other revenue sources while a district was operating under the safety net would require a reduction in programs.

4. The safety net would increase the difficulty of passing a special levy because: (a) every increment over the safety net level approved by voters would become permanent; and (b) voters would find it easier to reject levies if they knew that schools would remain open regardless of the outcome of the election.

5. If the safety net increased the difficulty of passing an incremental levy, the measure could widen the inequity between districts with adequate tax bases and those without adequate tax bases.

6. Nothing requires school districts operating under the safety net to pass through to property taxpayers any increase in state support or other revenues.

7. The annual tax base election provided by the constitutional amendment does not go far enough; more frequent tax base elections should be allowed.

8. By preventing school closures, the safety net would treat only the most visible symptom of Oregon's school finance problems. Removing this symptom may decrease political pressure sufficiently to defeat efforts at permanent reform.

D. Majority Discussion

The Majority of your Committee first evaluated the ballot measure against the criteria established for stability and equity. As discussed below, the effect of the measure on stability and equity depends to a great extent on how it influences levy voting behavior. The Majority also evaluated whether: (1) the measure should be supported because it will spur positive change in the system; and (2) the measure is necessary to remove an obstacle to economic development while a permanent solution to school financing is developed. Those arguments also are discussed below.

1. Stability

The arguments concerning the effect of the safety net on stability divide cleanly into positive and negative views. On the positive side, the measure would prevent school closures by allowing a district automatically to levy the amount of the prior year's levy and requiring the district to develop a budget within that levy. The levy would not be decreased by increases in other revenues, such as the BSSF and federal timber receipts. In addition, it would allow twice as many "prime" opportunities to pass new or updated tax bases in time to prepare for the new school year.

The existence of the safety net could ease passage of special levies, and even tax bases, because voters would need to consider, in effect, only the increment above the safety net level. In addition, the budgets developed under the safety net will demonstrate clearly to voters exactly what level of services they must accept without a higher levy. Concern that a district would operate, or has operated, at unrealistically low budget levels under the safety net could spur levy or tax base approval. Thus, one could conclude that the measure will guarantee schools a certain level of property tax revenue and help them obtain more.

On the other hand, the safety net includes no mechanisms to adjust for inflation, increases in student population, or decreases in other revenues, such as the BSSF and federal timber receipts. These features could force a district to operate with unrealistically low funding levels if it must use the safety net in successive years or if it experiences a sharp decline in federal timber receipts. Once the safety net is invoked and the budget set, voters would have no opportunity to pass a special levy for that operating year even if they found the level of service under the safety net budget unacceptable.

In addition, the safety net could discourage passage of special levies because voters understand that any increase approved becomes permanent and schools would not close in any event. Some argue also that the effective increase in tax base election dates does not go far enough; districts unlikely to approve a new tax base before the safety net are no more likely to approve one with it. Thus, the negative view of the measure is that it could slowly, or not so slowly, strangle those districts stuck within its confines.

The measure clearly enhances the stability of Oregon's current system of school finance insofar as it eliminates school closures resulting from the failure of a levy election. Aside from closure, however, whether the measure enhances the stability of the current system depends to a great extent on its effect on voter behavior. The positive prediction of voter behavior is that it will ease the passage of special levies and tax bases; the negative prediction is that voters will force districts to operate indefinitely with an inadequate level of funds.

In the short term, the Majority of your Committee believes that, for those school districts experiencing difficulty in achieving levy approval, the safety net would not ease passage of levies by allowing school districts to "sell" an incremental levy over the safety net. The disincentive to establish a permanent increase in the level of the safety net levy effectively counters that positive effect.

The Majority does not believe, however, that districts would slowly strangle under a safety net left in place by voters for several years. The safety net would force districts to budget the level of services the available funds allow, rather than threaten to close, or actually close, schools. The budget developed under the safety net could force the district to modify significantly, if not totally restructure, the educational program being delivered and, perhaps, even the delivery system. This budget will provide district residents valuable information that might otherwise have been obscured by issues of school closure. In other words, under the safety net, school districts could no longer simply threaten to close schools unless the levy passed; rather, they would have to support the levy request by showing the services that the safety net levy would eliminate. If district residents find the budgeted level of services unacceptable, they will approve a higher levy, without the confusion and mistrust that may accompany a levy election where school closure is threatened.

Compared to an ideal system of school finance, the lack of a growth measure in the safety net appears as a major drawback. The Majority of your Committee concluded that the absence of a growth measure in the safety net, however, did not support its rejection for at least three reasons.

First, the proper comparison is to the current system, rather than a hypothetical system. For the districts most likely to use the safety net, the lack of growth in the safety net measure is unlikely to worsen their funding situation. Some school districts already must decrease service to lower the requested levy to an amount acceptable to voters. Other districts operate under arguably inadequate tax bases after failing several times to pass a special levy.

Second, as noted above, the services allowed by a "safety net" budget may provide incentive for district residents to pass a levy or a tax base. This is particularly possible after the safety net has been in effect for a year or more.

Third, the safety net achieves its purpose of preventing school closures in the strictest manner possible. The Legislature did not design the safety net as permanent school finance reform and does not intend it to operate as such. While inclusion of a growth factor or use of a prior year's per-pupil expenditure, rather than a prior year's levy, would have alleviated concerns over slow strangulation, they would also have alleviated pressure to work toward true school finance reform. A safety net with a growth factor would resemble greatly a tax base. Even assuming voters approved such a measure, the relative stability achieved by it could prevent further efforts to achieve equity, as well as stability, in school finance.

2. Equity

The safety net's actual effect on stability would determine, to some extent, its effect on equity. If the positive aspects are realized, the safety net could lessen the disparity between districts without adequate tax bases and those with a secure funding source. If the negative results prevail, the disparity could widen. Given the conslusions discussed above, the Majority of your Committee does not believe the gap between adequately and inadequately funded districts would change significantly under the safety net.

The safety net would make no improvements in the appropriate assignment of benefit and burden discussed in Section III, A., 2, above. As explained, the Legislature expressly did not intend the safety net to act as a school finance measure. On the other hand, the safety net would not impede in any way adoption of a more equitable system of school finance.

3. Impetus for Change

Your Committee heard strongly opposing views concerning the impact of the safety net on the likelihood that Oregon will make further necessary changes in its system of school finance. Supporters argued that the measure would buy needed time by keeping schools open while public leaders and the legislature study and devise a workable solution to Oregon's school finance problems. Passage of the safety net would also stimulate additional school finance reform efforts by breaking the apparent paralysis of Oregon's leadership and voters on the issue.

Opponents argued that, instead, the safety net would remove the most visible symptom of Oregon's school finance problems. This, in turn, could postpone a solution for many years, either for lack of attention by leadership or unwillingness by the public to support any "solution" if they do not perceive a problem.

The Majority of your Committee believes that Oregon's public leaders and the legislature are committed to continuing work on the school finance issue. If the safety net passes, our leaders should understand from that passage that voters are interested in school finance and will approve changes they perceive as necessary and fair.

Thus, the only question is whether voters are more likely to support school finance reform if school closures are prevalent. The Majority believes the persuasive value of school closures will be totally overshadowed by the merits of the particular school finance reform proposal. An attractive school finance reform proposal should receive serious consideration even without the threat of school closures.

Conversely, the occurence of school closures will not improve the chances of an unattractive proposal.

Moreover, the acceptability of the safety net as a long-term school finance proposal is negated to some extent by the strictness of the safety net itself. As discussed above, by not including a growth measure, the Legislature referred to voters a safety net that cannot substitute for long-term school finance reform.

On balance, your Committee found this issue weighed neither in favor of nor against the safety net measure. The safety net buys time to address school finance. The price of its passage should be a commitment by Oregon's leaders to do so.

4. Economic Development

As discussed in Section II, Oregon has received negative press coverage during the recent school closures in Estacada and Sandy. The last important issue from the perspective of several witnesses before your Committee was whether an end to school closures, however achieved, was necessary to remove that obstacle to economic development.

Some believe strongly that this negative exposure dissuades some businesses from locating, or remaining, in Oregon. On the other hand, businesses familiar with Oregon may understand that the problem is local, rather than statewide, and that this problem does not affect areas such as Beaverton, which have an adequate tax base.

Although no direct proof exists, the Majority of your Committee believes that the negative press coverage resulting from school closures could either convince a business to eliminate Oregon before beginning its search or tip the balance against Oregon in direct comparison with alternative sites. The Majority found it less likely that the school finance situation would, absent other factors, convince an existing business to leave Oregon.

Evaluating this issue requires a balancing of two factors. Does removing the possibility of school closures because of their negative effect on economic development justify adopting a safety net that, for some school districts, could harm their financial situation? If Oregon's public leaders and Legislature develop an attractive school finance system that voters approve within several years, the economic development arguments would outweigh the possible temporary financial harm some districts could experience under the safety net. The longer that process takes, however, the closer the balance may become, particularly if the negative view of the safety net is realized.

As noted above, the Majority of your Committee believes that the safety net will not worsen the financial condition of school districts and may slightly improve them after several years. In addition, it is extremely unlikely that any Oregon school district could be forced by the safety net to operate at such a low level that national press coverage results. Nonetheless, the Legislature and other public leaders cannot become complacent on school finance simply because the safety net has ended press coverage of school closures. Work on school finance reform should proceed with no delay.

## E. Majority Conclusions

1. The safety net enhances the stability of Oregon's school finance system by preventing school closures. In the short run, the existence of the safety net probably would not ease passage of special levies because the permanent nature of any increments to the safety net levy amount will counter the arguments that voters effectively need consider only the increment over the safety net. In the long term, the budgets that operation under the safety net would require will provide voters valuable information that today may be obscured by issues of school closure. If voters find the level of services under the safety net unacceptable, they will support a higher special levy or, perhaps, a tax base.

2. Compared to the current system of school finance, the lack of a growth measure in the safety net does not significantly worsen the financial condition of the districts most likely to use it. In addition, the incentive for levy passage provided by the safety net budget process would mitigate against attrition in the funds available to safety net districts. Last, a safety net including a growth measure would establish not a mere safety net, but a different form of tax base, which could relieve pressure for further school finance reform.

3. The safety net would not significantly worse the inequity of the current system of school finance. Although the safety net does not correct any of the present inequity, it was not designed to do so. The safety net would not impede in any way development of a more equitable system in the future.

4. Because Oregon's public leaders and the Oregon Legislature are committed to school finance reform, the existence of the safety net and the lack of school closures would not deter further efforts at needed reform. Any affect that the absence of school closures would have on the public's willingness to consider a school finance reform proposal will be overshadowed by the merits of the particular school finance reform proposal.

5. Although the safety net does nothing directly to change school finance in Oregon, if passed it would be the first voter-approved change in school finance in decades. Such change, even if small, will serve as an indication that voters believe a problem exists that must be addressed. Oregon's leaders should understand from passage of the safety net that voters are interested in the issue and will approve changes they perceive are necessary and fair.

6. School closures harm economic development. The safety net would prevent the negative national press coverage that accompanies Oregon's school closures while Oregon's leaders develop a new system of school finance for Oregon. Although spending may decline in some districts while reform is under development, this decline should not produce spending levels that receive the same coverage as closures. Nonetheless, the Legislature and other public leaders cannot become complacent about school finance reform with the end of school closures.

## F. Majority Recommendation

**For the above reasons, the Majority of your Committee recommends a YES vote on State Measure No. 2 in the May 19, 1987 special election.**

**Respectfully submitted,**

**John Bauman**
**Stephen Cook**
**Deborah Sievert**
**Don C. Weege**
**Pamela Rapp, Chair**
**FOR THE MAJORITY**

## G. Minority Discussion & Conclusions

The Minority of your Committee concludes that State Measure No. 2 is inadequate for at least four reasons. Each of these is addressed below.

1. The Measure would relieve the pressure necessary to enact long-term school finance reform. Without the threat of school closure, voters in a number of districts could decide to maintain minimal levels of funding which further would reduce their ability to provide a standard, basic level of education. It also seems likely that passage of the proposal could lead to long-run complacency regarding school financial reform. The need for a new school finance system is urgent. The legislature needs to be kept under pressure until it comes up with a long-term solution.

2. The proposed legislation makes no provision for ensuring that its provisions will be temporary. Historically school finance legislation, once enacted, has remained in place permanently. If this legislation was intended as temporary, it should have included provisions to assure reconsideration by the legislature at a specified point in the future.

3. School closures may not be more detrimental to economic development than the lower quality of education caused by restrictive funding. The Majority concludes that closures are an obstacle to economic growth, although it points out that evidence of that impact is weak. Districts threatened with closures tend to be in rural areas that do not have a significant economic impact statewide. Large companies can recognize that distinction. Also, as the Majority points out, if school districts are forced to operate at "no-growth" levels for any length of time, the quality of education could be negatively affected. That decrease in quality could have an even stronger negative impact on economic development than school closures.

4. The measure promotes a "no-growth" philosophy that could have negative long-term consequences on the education of Oregon's children. Historically, school finance legislation has allowed for moderate growth, with an automatic adjustment for inflation. The proposed measure denies affected districts the ability to maintain their purchasing power except through local levies. However, it was the failure of local levies that produced the school closures that resulted in Measure No. 2.

H. Minority Recommendation

**For the above reasons, the Minority recommends a NO vote on State Measure No. 2 at the May 19, 1987 special election.**

**Respectfully submitted,**

**Donald N. Johnson**
**Bob Rindfusz**
**Jo Zettler**
**FOR THE MINORITY**

Approved by the Research Board on April 16, 1987 for transmittal to the Board of Governors. Received by the Board of Governors on April 20, 1987 and ordered published and distributed to the membership for consideration and action on May 8, 1987.

[Your Committee wishes to acknowledge gratefully the time and other contributions of prior members of the Committee -- Diana Godwin, former Chair, Mike Schock, Ann Porter, Philip Stanton, Paul S. Bovarnick, Coleman South, Mark Becker, and Forrest Brostrom -- and of our tireless research advisors -- Cal Norman and Chris Kitchel. The Committee further wishes to extend their thanks to Mimi Bushman and the other Staff of the City Club for their unflagging efforts in the production of this Report, to Terry Drake of the Legislative Revenue Office for invaluable and virtually instant information, and Evelyn Siniscal of Portland General Electric Company for her work in preparing the analysis in Appendix D.]

## IX. SUMMARY OF RECOMMENDATIONS

**REPORT ON LONG-TERM SCHOOL FINANCE REFORM**

Majority Recommendations:

1. The Majority of your Committee recommends that the following six principles guide the Oregon Legislature, the Oregon Department of Education, other public leaders, and local school districts and school boards in designing a new system of stable and equitable school finance for Oregon:

   a. All of the revenue necessary for each school district to provide a basic educational program should be collected on a statewide basis.

   b. The Oregon Education Fund should:
      1. use revenues assessed at a rate or rates that do not distinguish by geographic area;
      2. be constitutionally dedicated to funding basic education;
      3. incorporate all current miscellaneous local sources, such as the County School Fund;
      4. incorporate all current state contributions, such as the BSSF and the Common School Fund; and establish an appropriate growth factor for the dedicated general fund appropriations such as the BSSF; and
      5. offset current local property tax collections to the extent of any new revenue source or sources incorporated in the Oregon Education Fund.

   c. The Oregon Department of Education should distribute the Oregon Education Fund among school districts on a per-pupil basis.

   d. School districts should retain local control over how they provide a basic educational program with the per-pupil grant provided by the state as long as they demonstrate to the state that the program satisfies all state requirements.

   e. School districts should retain local control over, and use local financing for, any educational programs not included within basic education and over any educational decisions requiring more than the state per-pupil grant to provide a basic education.

   f. Local school boards should not have the authority to close schools upon their determination that insufficient funds exist to maintain a school program.

2. The Majority of your Committee recommends serious consideration, by the legislature or any taskforce appointed by the Governor, of a sales tax and a statewide property tax as the two most feasible new sources of revenue for financing basic education. (The Majority does not recommend either one or exclude the possibility of other sources of revenue.) Further study of new revenue sources should be done in conjunction with a review of Oregon's overall tax system to ensure that the burden of financing basic education is spread equitably among individuals, as well as among school districts.

Minority Recommendations:

1. The Minority recommends that Majority Recommendation No. 1 be amended to add the following principles:

   a. No other state or local governmental unit shall be allowed to collect or expend revenues from the new statewide revenue source for basic education. The Oregon Education Fund shall be collected and expended exclusively for basic education.

   b. Any intentional or inadvertent tax relief such as income or property tax reductions, created by educational finance reform, should guarantee insofar as possible that such relief is permanent or long term.

2. The Minority recommends deletion, in Majority Recommendation No. 2, of the statewide property tax as an alternative for future consideration.

3. In addition, the Minority recommends that the City Club continue this Committee's inquiry by authorizing a new Study Committee. The direction of the study should be to consider further the financing of public secondary and elementary education in Oregon under the guiding principles recommended by this Committee and under such other criteria as the new Study Committee might identify. The new Study Committee should be directed to broaden its analysis to reform of the general governmental finance system and to prepare for debate by the City Club the key features of an initiative proposal or a recommendation that the present system of school finance be retained or modified. Any proposal should be presented in adequate time for placement on the general election ballot in November, 1988. The study should be conducted independently of, but with due consideration of, the study promised by the Governor.

**REPORT ON STATE MEASURE NO. 2 (MAY, 1987 SCHOOL "SAFETY NET" MEASURE)**

Majority Recommendation:

The Majority of your Committee recommends a YES vote on State Measure No. 2 in the May 19, 1987 special election.

Minority Recommendation:

The Minority of your Committee recommends a NO vote on State Measure No. 2 in the May 19, 1987 special election.

## Appendix A
PERSONS INTERVIEWED

Dr. Milton Baum, Associate State Superintendent, Department of Education
George Benson, Superintendent, Centennial School District
Gary Carlsen, Vice President and Director of Administration, Associated Oregon Industries
John Danielson, Government Relations Consultant, Oregon Education Association
Terry Drake, Economist, Legislative Revenue Office

Chris Dudley, Director of Legislative Services and Executive Director-designee, Oregon School Boards Association
Al Hillier, Assistant Superintendent, Fiscal/Operations, Centennial School District
Carl Hosticka, State Representative
Roberta Hutton, Superintendent, Sandy Union High School District
Frank McNamara, Portland School District Board of Directors
State Senator Red Monroe, Chair, Interim Revenue and School Finance Committee
T. K. Olson, Director, Educational Coordinating Commission
Robert L. "Ozzie" Rose, Executive Director, Confederation of Oregon School Administrators
Mary Anne Sahagian, Chair, Columbia County Education Service District
Doug Spencer, Finance Director, Vancouver School District

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# Appendix C
## NATIONAL SCHOOL FINANCE

The following table is a brief summary of nationwide school finance for FY 1985-86. This information was taken directly from a chart entitled *School Finance at a Glance 1985-86* compiled by Van Dougherty of the Education Commission of the States, 1860 Lincoln Street, Denver Colorado 80295. This information should only be used for relative, not absolute purposes. Particularly in the calculation of per-pupil expenditures, the states differ substantially in the types of costs included.

| State | General Information | Sources of Revenue (% Federal, State, Local) | Per Pupil Expenditure |
|---|---|---|---|
| Alabama | All 129 districts are fiscally dependent. Voter approval is required for budget and tax increases with no limit on number of elections that may be held in 1 year. A 3/5 vote is necessary for approval. Sources of local revenue for schools are property tax (51%), sales tax (21%) and other (28%) | 11.6% Federal<br>73.4% State<br>15.0% Local | $2,508 |
| Alaska | All 55 school districts are fiscally dependent. The 32 city of borough school districts must submit school budgets to city council (city school district) or borough assembly (borough school district), which derive from both property and sales taxes. Severance taxes are a source of revenue for some districts. The 23 Regional Educational Attendance Areas have no taxing authority and derive 100% of their funds from the State. | 3.3% Federal<br>74.6% State<br>22.1% Local | $8,044 |
| Arizona | There are 5 fiscally dependent and 219 fiscally independent school districts. Maximum local levy without voter approval is the required local effort for participation in the block grant program. A simple majority vote is required to exceed the revenue control limit or raise property taxes. Local property taxes constitute the primary source of local revenue. | 8.5% Federal<br>52.3% State<br>39.2% Local | $2,738 |
| Arkansas | All 341 districts are fiscally independent. There is no legal limit to the number of mills that may be levied for school purposes. To increase the tax rate for schools, a simple majority vote is required. There is a limit of 1 election per year for tax increase requests. The majority of local revenues derive from the property tax. | 10.3% Federal<br>61.3% State<br>28.3% Local | $2,642 |
| California | All 1,029 districts are fiscally dependent. The total property tax levy is limited constitutionally and its allocation prescribed statutorily. Districts can levy special taxes for specific purposes with a two-thirds majority vote. Such taxes may not preempt existing state taxes (e.g., sales, personal income, etc.). Voter approval is not required for general operating budget. Local revenues are derived almost exclusively from the countywide property tax. | 7.7% Federal<br>68.7% State<br>23.7% Local | $3,573 |

| State | General Information | Sources of Revenue (% Federal, State, Local) | Per Pupil Expenditure |
|---|---|---|---|
| Colorado | All 177 districts are fiscally independent. Local school board adopts a calendar year budget within a state set authorized limit. Override on limitation may be granted by a state budget review board or through a local vote. Local revenues for schools derive primarily from local property tax. Property tax is collected on a calendar year basis. | 5.1% Federal<br>36.0% State<br>58.9% Local | $3,740 |
| Connecticut | The state's 165 districts are fiscally dependent. Local board of finance proposes entire town budget, which includes the school budget; voters accept or reject total budget. Voter approval is required for a new tax increase. | 4.9% Federal<br>40.5% State<br>54.5% Local | $4,888 |
| Delaware | All 19 districts are fiscally independent. Increases in local tax rates for current operations must be approved by referendum. Voter appproval is required for a tax increase. 2 elections can be held each year; simple majority required for approval. | 7.7% Federal<br>68.7% State<br>23.5% Local | $4,517 |
| Florida | All 67 school districts fiscally independent. Maximum local levy without voter approval varies from 4.276 to 4.698 based on assessment ratio differences. Additional discretionary millage is 1.319 mills for operations and 1.5 mills for capital purposes. voter approval not required for budget or tax increase. 1 election can be held per year for local bond issues. Simple majority approval required. 82.9% of local revenue from property taxes; 17.1% from interest and other nontax sources. | 8.0% Federal<br>53.4% State<br>38.6% Local | $3,371 |
| Georgia | There are 159 fiscally dependent and 28 fiscally independent school districts. Maximum local levy without voter approval is 20 mills. A simple majority vote is required for a tax increase. 1 election can be held per year. 80% of local revenues derive from property taxes, 20% from sales taxes. | 8.1% Federal<br>55.8% State<br>36.1% Local | $2,980 |
| Hawaii | | 9.3% Federal<br>90.6% State<br>0.2% Local | $3,766 |
| Idaho | All 116 districts are fiscally independent. Maximum local levy without voter approval is 4 mills. Voter approval is required for a tax increase and an election can be held every 60 days. Approximately 85% of all local revenues come from property taxes. | 6.3% Federal<br>65.6% State<br>28.2% Local | $2,390 |
| Illinois | 977 fiscally independent school districts. For current expenses, maximum local levy without voter approval is 9.2 mills for K-8 & 9-12 districts & 16 mills for K-12 districts. Maximum local levy with referendum is 30.5 mills for K-8 & 9-12 districts & 40 mills for K-12 districts. Separate tax rate limitations apply for building operations and maintenance, capital improvements, transportation & summer school. Local revenues provided by real property tax, corporate income tax & other nontax sources. New 1985 legislation increases permissive tax rate in unit districts (K-12) over a 4-year period. | 7.3% Federal<br>39.2% State<br>53.5% Local | $3,621 |

| State | General Information | Sources of Revenue (% Federal, State, Local) | Per Pupil Expenditure |
|---|---|---|---|
| Indiana | All 304 districts fiscally dependent. Each district is guaranteed a base revenue per pupil of $1,900. Districts that are under $1,900/ADM in state support + maximum normal general fund levy are allowed to increase tax to $2 per $100 assessed valuation. | 3.7% Federal<br>58.2% State<br>38.1% Local | $2,973 |
| Iowa | All 436 districts are fiscally independent. Voter approvals not required but local tax levies are approved by a state budget review committee. Over 90% of local revenue for schools is derived from property taxes. | 5.8% Federal<br>40.7% State<br>53.5% Local | $3,568 |
| Kansas | All 304 districts are fiscally independent. Voter approval is required to exceed the budget limitation, simple majority required for approval. Local revenues derive primarily from property and motor vehicle taxes. Each district receives a rebate of 20% of its residential individual income tax liability, 85% of which is considered as local revenue. | 4.6% Federal<br>44.6% State<br>50.8% Local | $3,914 |
| Kentucky | All 180 school districts are fiscally independent. Maximum local levy without voter approval is the rate certified by the state for participating in the program. Districts can exceed the state imposed levy with voter approval. Total special tax rate cannot exceed 1.5 mills. Local revenues derive from a variety of sources property, 70%; occupational licenses, 13%; utility taxes, 13%; other, 4%. | 10.4% Federal<br>68.6% State<br>21.0% Local | $2,853 |
| Lousiana | All 66 districts are fiscally independent. The maximum local levy without voter approval is 5.5 mills. Voter approval is required for a tax increase. 1 election may be held each year, simple majority required for approval. Primary sources of local revenue include property tax (35.4%), sales tax (60.6%), and other 16th section lands (4.0%). | 10.9% Federal<br>53.2% State<br>35.9% Local | $3,046 |
| Maine | All 228 school disricts are fiscally dependent. Voter approval is required for all budget and tax increases. Elections require a simple majority for approval. Sources of local revenue for schools include property tax (50%), income tax (19%), sales tax (19%) and other (12%). | 7.7% Federal<br>51.1% State<br>41.2% Local | $3,346 |
| Maryland | All 24 school districts are fiscally dependent. Neither the constitution nor state statutes prescribe any upper limit for school levies. Local revenue for schools derive primarily from property taxes. | 5.8% Federal<br>40.4% State<br>53.8% Local | $4,349 |
| Massachusetts | 376 local school districts are fiscally dependent. The maximum local levy without voter approval is 2 1/2% over the previous year. Local revenue for schools is derived from property tax, user fees and an excise tax (state tax but revenues are kept locally). | 5.3% Federal<br>44.0% State<br>50.7% Local | $4,255 |
| Michigan | The state's 569 school districts are fiscally independent. Maximum local levy without voter approval is 15 mills. Voter approval is required for a budget or tax increase. 100% of local revenues derive from the property tax. | 4.7% Federal<br>36.6% State<br>58.7% Local | $3,789 |

| State | General Information | Sources of Revenue (% Federal, State, Local) | Per Pupil Expenditure |
|---|---|---|---|
| Minnesota | 436 districts are fiscally independent. There is no specific maximum mill rate. Rates vary among districts depending on various levy limitation components. Voter approval is required only for the referendum levy through which a district may raise additional operating revenue. 2 elections can be held in 1 year, simple majority required for approval. Property tax revenues account for 100% of local revenues for schools. | 4.2% Federal<br>54.4% State<br>41.3% Local | $3,864 |
| Mississippi | All 154 school districts are fiscally dependent. The local mill levy is limited to 110% of the previous year's actual collection. Voter approval is not required for a budget or tax increase. The property tax is the primary source of local revenues for schools. | 17.0% Federal<br>57.2% State<br>25.8% Local | $2,305 |
| Missouri | 546 districts are fiscally dependent. Maximum local levy without voter approval is 12.5 mills. Voter approval is required for budget or tax increase. 2/3 vote required for levies above 37.5 mills, 6 elections may be held in 1 year. Sources of local revenue include property tax, sales tax and revenues from food services sales, interest income and student activities receipts. | 6.6% Federal<br>38.9% State<br>54.5% Local | $3,155 |
| Montana | All 554 school districts are fiscally independent. Voter approval is required for a budget or tax increase, simple majority required for approval. Local revenue for schools derives from local property taxes. | 6.4% Federal<br>51.7% State<br>41.9% Local | $4,337 |
| Nebraska | All districts are financially independent. In the budgeting process, total funding requirements are calculated. From this total federal, state and local anticipated receipts are deducted. The balance is a property tax levy requirement. | 5.1% Federal<br>28.1% State<br>66.8% Local | $3,285 |
| Nevada | All 17 districts are fiscally dependent. Sources of local revenue for schools are derived from property tax (44%), sales tax (47%) and other revenues (9%). | 3.9% Federal<br>34.1% State<br>62.0% Local | $3,142 |
| New Hampshire | There are 9 dependent and 160 independent school districts. For dependent districts the city council approves annual budget and any increases thereto. For independent districts, school budgets must be approved annually by the voters. Local revenues for schools are derived exclusively from local property taxes. | 3.8% Federal<br>5.0% State<br>91.2% Local | $3,115 |
| New Jersey | All 606 districts are fiscally independent. 2 types of districts: Type 1, primarily urban districts with appointed school boards, and Type II, elected school board (majority of districts). Voter approval is required for a budget increase in Type II districts. There are no limits on the number of elections that may be held in 1 year, a simple majority is necessary for a budget increase. Source of local revenue for schools is the property tax. | 4.7% Federal<br>44.7% State<br>50.6% Local | $5,544 |
| New Mexico | 88 districts are fiscally dependent. The maximum local levy without voter approval is 1/2 mill. Voter approval is not required for a budget or tax increase. Sources of local revenue for schools are derived | 12.8% Federal<br>75.4% State<br>11.9% Local | $3,374 |

| State | General Information | Sources of Revenue (% Federal, State, Local) | Per Pupil Expenditure |
|---|---|---|---|
| | from the 1/2 mill property tax, interest earnings and other. State takes credit for 95% of 1/2 mill. | | |
| New York | 695 districts are fiscally independent. 5 are dependent. Budget procedures differ in city and noncity districts. Voters approve the budget in noncity (independent) districts. There is no limit on the number of elections that can be held in 1 year, simple majority is required for approval. In independent city districts, the board of education approves the budget. In dependent districts (the state's largest cities), local revenue to be applied in the budget is determined by the municipal government. | 3.6% Federal<br>43.9% State<br>52.5% Local | $5,616 |
| North Carolina | All 141 school districts are fiscally dependent, school taxes are levied and budgets approved by county commissioners. A supplemental tax, not to exceed 5 mills (6 mills in districts with over 100,000 population) is permissible with voter approval. A simple majority is required. No more than 2 elections can be held in 1 year. Local revenues for schools derive primarily from the property tax. | 7.9% Federal<br>64.2% State<br>27.9% Local | $3,366 |
| North Dakota | All 311 school districts are fiscally independent. The maximum local levy without voter approval is 70 mills. Voter approval is not required for a budget increase. The tax limit may be increased by 55% majority in districts with a population of 4,000 or less and by a simple majority in districts with a population over 4,000. 2 elections can be held in 1 year. The primary source of local revenue for schools is the property tax. | 8.1% Federal<br>53.5% State<br>38.4% Local | $3,059 |
| Ohio | All 615 districts are fiscally independent. Districts may levy an additional 10 mills above the RLE without voter approval. A simple majority is required for tax increases above this amount. Local revenues for schools come from property taxes (75%) and other sources (25%). | 5.0% Federal<br>46.3% State<br>48.7% Local | $3,547 |
| Oklahoma | All 613 districts are fiscally independent. Districts can levy up to 20 mills without voter approval. A tax increase requires voter approval. Approximately 1 election per month can be held during the school year. For millage elections, simple majority required for approval, for bond issues 2/3 required. Property tax revenue accounts for 98% of local revenue for schools. | 5.1% Federal<br>64.1% State<br>30.8% Local | $2,867 |
| Oregon | All 306 school districts are fiscally independent. Maximum local levy without voter approval varies depending on existance of an approved tax base. A simple majority vote is required for a tax increase. No more than 6 elections can be held in 1 year, unless a district faces closure due to absence of levy. Emergency election may then be held. 91% of all local revenue comes from the property tax. | 4.8% Federal<br>27.9% State<br>67.3% Local | $4,123 |
| Pennsylvania | 499 districts are fiscally independent; 2 districts are dependent. Voter approval is not required for a budget or tax increase. Local revenues for schools are derived from the property tax (70%) and other taxes (23%) | 5.0% Federal<br>45.3% State<br>49.7% Local | $4,235 |

| State | General Information | Sources of Revenue (% Federal, State, Local) | Per Pupil Expenditure |
|---|---|---|---|
| Rhode Island | All 40 districts are fiscally dependent. Voter approval is required for budget and tax increases. Majority vote is required for approval; no limit on number of elections that can be held in 1 year. The source of local revenue for schools is the property tax. | 4.1% Federal<br>41.9% State<br>54.0% Local | $4,669 |
| South Carolina | All 92 districts are fiscally independent. Voter approval is required for a tax increase. The property tax is the primary source of local revenue for schools. | 9.0% Federal<br>58.9% State<br>32.1% Local | $2,912 |
| South Dakota | All 194 school districts are fiscally independent. Voter approval is not required for a tax increase, except when levy limit is reached. General fund levels are limited to 40 mills on nonagricultural property and 24 mills on agricultural property. Local revenues derive primarily from local property taxes. | 11.1% Federal<br>27.8% State<br>61.1% Local | $2,967 |
| Tennessee | All 141 districts are fiscally dependent. Voter approval is not required for budget or tax increases. Sources of local revenue for schools are: property tax (66%) and sales tax (33%). | 9.7% Federal<br>50.0% State<br>40.3% Local | $2,533 |
| Texas | All 1,071 districts are fiscally independent. A tax rate increase of more than 3% must be posted for public notice and hearings. A tax rate increase of more than 8% may result in a roll-back initiative by petition of 10% of voting rolls of districts. Only 1 election can be held annually, simple majority is required for approval. The source of local revenue for schools is the property tax. | 7.4% Federal<br>46.0% State<br>46.6% Local | $3,384 |
| Utah | All 40 districts are fiscally independent. Proceeds from the 21.28 required mill levy that exceed the foundation program amount per weighted pupil unit are returned to the State Uniform School Fund as recapture. As part of the state-supported Voted Leeway Program, a district can levy up to 10 additional mills above the 21.28 mills (see description of formula). An election is required and a simple majority is required for approval. Property tax revenue provides the majority of local school support. | 5.3% Federal<br>55.6% State<br>39.1% Local | $2,297 |
| Vermont | All 273 districts are fiscally independent. Voter approval is required for each year's budget or tax rate. Local funds are derived almost entirely from the property tax. | 6.2% Federal<br>35.6% State<br>58.2% Local | $3,554 |
| Virginia | 139 districts are fiscally dependent. County supervisors or city council approves the budget and sets tax rates for all purposes. The major sources of local school revenue come from the property tax, sales tax and income tax. | 6.4% Federal<br>36.1% State<br>57.5% Local | $3,210 |
| Washington | There is a statewide property tax of 3.6 mills. 300 school districts are fiscally independent. Local levies may not exceed 110% of the previous year's full funding. Levy limit can be exceeded with voter approval and approval of state superintendent. | 5.7% Federal<br>75.6% State<br>18.7% Local | $3,705 |

| State | General Information | Sources of Revenue (% Federal, State, Local) | Per Pupil Expenditure |
|---|---|---|---|
| West Virginia | All 55 districts are fiscally independent. The maximum local levy without voter approval is 2.29 mills for personal property, 4.59 mills for residential and farm property, 9.18 mills for other property. A simple majority vote is required for budget and tax increases, property tax income is the major source of school revenue. | 9.8% Federal<br>63.8% State<br>26.5% Local | $2,821 |
| Wisconsin | There are 432 districts that are all fiscally independent and have tax authority. Local revenues for school derive primarily from local property taxes. | 4.0% Federal<br>39.8% State<br>56.2% Local | $4,168 |
| Wyoming | 39 districts are fiscally dependent, 10 are independent. The maximum local levy without voter approval is 26 mills. No voter approval is necessary for a budget increase. Voter approval is required for assessing 2 mills beyond the 26 mills and for capital construction projects. A simple majority is required for approval. 90% of local revenues for schools comes from property taxes. | 2.3% Federal<br>37.4% State<br>60.3% Local | $5,479 |

## Appendix D

DIFFERENCES IN PER-PUPIL EXPENDITURES AMONG SCHOOL DISTRICTS IN OREGON

| Over 3,000 ADM | Outside TB (20) | Within TB (16) |
|---|---|---|
| 1) highest per pupil spending | 4,491 | 4,406 |
| 2) lowest per pupil spending | 3,210 | 3,216 |
| 3) average per pupil spending | 3650.55 | 3,800.94 |
| 4) highest assessed value per ADM | 426,551 | 283,624 |
| 5) lowest assessed value per ADM | 126,061.00 | 128,308.00 |
| 6) average assessed value per ADM | 214,187.70 | 191,871.50 |

| Between 1000-3000 ADM | Outside TB (23) | Within TB (28) |
|---|---|---|
| 1) highest per pupil spending | 4,623 | 5,126 |
| 2) lowest per pupil spending | 2,897 | 2,986 |
| 3) average per pupil spending | 3,614.70 | 3,750.57 |
| 4) highest assessed value per ADM | 622,476 | 457,294 |
| 5) lowest assessed value per ADM | 97,628 | 105,543 |
| 6) average assessed value per ADM | 215,459.74 | 203,588.11 |

| Between 500-999 ADM | Outside TB (21) | Within TB (25) |
|---|---|---|
| 1) highest per pupil spending | 4,569 | 4,894 |
| 2) lowest per pupil spending | 2,829 | 2,918 |
| 3) average per pupil spending | 3,685.43 | 3,903.76 |
| 4) highest assessed value per ADM | 559,999 | 435,973 |
| 5) lowest assessed value per ADM | 101,653 | 105,465 |
| 6) average assessed value per ADM | 189,756.95 | 181,587.40 |

| Between 100-499 ADM | Outside TB( 33) | Within TB (62) |
|---|---|---|
| 1) highest per pupil spending | 6,209 | 8,234 |
| 2) lowest per pupil spending | 2,626 | 2,401 |
| 3) average per pupil spending | 4,083.09 | 4,310.98 |
| 4) highest assessed value per ADM | 525,747 | 1,374,622 |
| 5) lowest assessed value per ADM | 104,802 | 82,424 |
| 6) average assessed value per ADM | 250,883.61 | 266,389.55 |

| Under 100 ADM | Outside TB (18) | Within TB (58) |
|---|---|---|
| 1) highest per pupil spending | 15,855* | 36,739 |
| 2) lowest per pupil spending | 2,376 | 2,520 |
| 3) average per pupil spending | 6,007.89 | 5,460.40 |
| 4) highest assessed value per ADM | 1,097,989 | 2,130,087 |
| 5) lowest assessed value per ADM | 90,634 | 122,951 |
| 6) average assessed value per ADM | 379,144.67 | 395,812.98 |

* (next highest - 8,848)