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Information Report on Ballot Measure 1: New Tax Bases for Oregon School Districts

City Club of Portland (Portland, Or.)

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INFORMATION REPORT ON
BALLOT MEASURE 1
NEW TAX BASES FOR OREGON SCHOOL DISTRICTS

To the Board of Governors,
City Club of Portland:

I. INTRODUCTION

On May 16, 1989, Oregon voters will decide whether to approve a constitutional amendment establishing a new tax base for every school district in the state. Contingent on passage of the ballot measure is Senate Bill 802, a \$112 million package that includes additional property tax relief, more state programs for severely handicapped children, and an increase in the state's basic grant to school districts. The ballot measure and funding package are described as the next step for Oregon, following the Safety Net measure proposed by the 1987 legislature and passed by voters in 1987.

II. BACKGROUND

Oregon has long wrestled with school finance reform. Over the last two decades, voters have considered numerous proposals to achieve greater stability and equity in Oregon school finance. As defined in the 1987 City Club Report on Long-Term School Finance Reform, stability arises when a school finance system provides both certainty of receipt and sufficiency of amount. The report defines an equitable system of school finance as one which appropriately assigns the financial burden to match the benefit by funding a basic educational program on a statewide level.

A. School Finance Basics

Briefly, Oregon school districts receive funds from three sources: local, state, and federal. Local sources include current and prior years' property taxes, other local revenue such as cash carryovers, and the county school fund. State sources include the Basic School Support Fund (BSSF), the Common School Fund, and other state revenues. Federal sources are primarily grants for specific programs, and include federal timber revenues, even though those are distributed locally.

For 1986-87, the most recent year for which audited figures are available, the share of total resources for education in Oregon funded by each source was 66.5% local, 27.3% state, and 6.2% federal. Of the local funds, by far

the biggest component is local property tax revenue. Oregon uses a tax base system to levy local property taxes.

A school tax base is a specific dollar amount established by the majority of district residents voting at any May primary election. Once a district has a tax base, it may levy up to that amount each year without additional voter approval. The tax base may grow automatically each year by up to 6%. Whether a district levies all or only part of its tax base depends on the budget approved by the school board for a given operating year.

Of the 303 school districts in Oregon, 252 have a tax base. Only 204 of the school districts with tax bases operated within their tax base during 1988-89. The remaining school districts, with no tax bases or inadequate tax bases, relied on either one-year or multiple-year special levies, or the safety net levy described below. 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.

The rate needed to secure an approved tax base or operating levy depends entirely on the assessed value of property in the district. Poorer districts must levy at higher rates to support the same school spending as districts with higher assessed valuation. Oregon tax rates and school spending vary widely across the state.

B. The Safety Net

Prior to the 1987-88 school year, several Oregon school districts had periodically closed their doors when district voters refused to approve a levy providing the school district sufficient funds to operate. The passage of the "School Safety Net" now precludes school closures. School districts desiring to levy outside of their tax bases may submit annual or serial levies 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 must determine whether the school district has sufficient funds to operate for a standard school year without a special levy. If it does not have sufficient funds, the district must 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 levy). The district then must revise its budget to operate for a standard school year using only the safety net levy and whatever other resources are available to it. This school year, 27 school districts are in the safety net.

C. Long-Term School Finance Reform Proposals

In 1987 the City Club recommended that the legislature create an Oregon Education Fund (OEF) to provide all school districts sufficient revenue for a basic education program. The recommendations proposed that the 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 (5) offset current local property tax collections to the extent of any new revenue source or sources in the OEF. The City Club did not consider or propose adoption of current tax bases for all school districts.

Shortly after the City Club issued its report, the 1987 legislature authorized the creation and funding of the Governor's Commission on School Funding Reform to develop long-term solutions to Oregon's school finance problems. The Commission's report, published in September 1988 and titled, "Small Steps to a Distant Goal," proposed to stabilize the two major sources of school funds in Oregon in the short term by creating new tax bases for all school districts and freezing the Basic School Support formula.

For the long term, the Governor's Commission set forth a plan similar to the City Club's. The Commission proposed that the state guarantee sufficient funding for a basic education program, provided a school district met a certain minimum tax effort through local property taxes. Increased state support would offset local property taxes and decrease the reliance on a source that distinguishes by geographic area.

III. STATE MEASURE NO. 1

State Measure No. 1 had its genesis in the recommendations of the Governor's Commission. The measure itself authorizes new tax bases for all school districts. The accompanying legislation, SB 802, freezes the Basic School Support formula and accomplishes other goals identified by the Commission. The chart below compares the components of the program proposed by the Governor's Commission to the Governor's own program and to that adopted by the 1989 Legislature as contained in SB 802.

Chart 1

Comparison of Commission Recommendations and
the Governor's Budget
(\$ in millions)

	<u>Commission Recommendations</u>	<u>Governor's Budget</u>	<u>SB802</u>
School Tax Reductions (property tax offsets)	\$150.0	\$ 75.0	\$ 20.3
Basic School Support Increase	105.7	129.3	22.0
Additional funds for high-tax/ low expenditure districts	30.0	20.0	35.0
Funding for severely dis- abled students	30.0	29.0	35.0
Funding for state assessment and standardization	<u>2.5</u>	<u>2.0</u>	<u>0</u>
Total	\$318.2	\$246.3	\$112.3

As can be seen, the legislature adopted a package similar, but smaller than that proposed by the Commission and the Governor. Under the proposed constitutional amendment, school districts that levy outside of their tax base authority will receive new tax bases calculated under the most favorable of the following methods:

- . the 1989-90 tax base as determined under current law;
- . the highest of the 1986-87, 1987-88, or 1988-89 operating levy, increased by 6%;
- . the 1988-89 operating levy increased by 12.36% if the district used the safety net in both 1987-88 and 1988-89; or
- . the operating levy approved by the district's voters for 1989-90, if approved by July 1, 1989.

If more than one of these formulas will fit a school district's circumstances, the district may choose which to apply. Each school district receiving a new tax base would adopt a resolution by September 1, 1989 declaring how much of its new tax base authority it intended to use. This new tax base will grow at six percent per year, as under the present constitutional provisions.

According to the Legislative Revenue Office, 100 of Oregon's 303 school districts will receive new tax bases if State Measure 1 is adopted. Portland's school levy is not affected. In Multnomah County, the levies of Gresham School District 4, Reynolds, Sauvie Island, and Gresham Union High

would increase. In Washington County, the Banks and Forest Grove levies would increase.

Senate Bill 802 will take effect only if State Measure 1 is passed by voters. This bill provides:

1. \$20.3 million in a new homeowner education tax relief program in addition to the existing Homeowner and Renter Relief Program;
2. \$35 million in targeted tax relief for property owners in school districts that have higher than average tax rates but lower than average per pupil spending;
3. \$35 million in increased state aid for educating severely handicapped children; and
4. \$22 million in increased Basic School Support to ensure that no school district receives less than it otherwise would have because of a the freeze in the distribution formula.

Portland will receive additional funding under the increase in state aid for handicapped education but is not affected by the targeted tax relief. The Centennial and Corbett school districts will receive some of the targeted tax relief, as will several districts in Washington County.

IV. SUMMARY

Ballot Measure 1 and the accompanying SB 802 were designed to provide all Oregon schools greater funding stability and increase equity among Oregon taxpayers. The package is not promoted, however, as the final solution to Oregon's school finance problems. According to the Governor, the Governor's Commission on School Funding Reform, and a 1987 City Club Report, a final solution must include decreased reliance on the local property tax for school funding.

****Pamela Rapp, Research Advisor to the Education Standing Committee and Chair of the 1987 City Club report on "Long-term School Finance Reform and State Measure No. 2 (Safety Net)," was primarily responsible for preparation of this report with assistance from members of the School Finance Subcommittee of the Education Standing Committee: Matthew Baines, Fran Gardner, Addie Granville, Carla Utech Kelley, Paul Majkut, Karen McKinney, Ruth Robinson, Heinz Rudolf, James Whitfield, Becky Wolcott, and Peter Wilson, Chair****

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