City Club of Portland Bulletin vol. 50, no. 53 (1972-5-19)

City Club of Portland (Portland, Or.)
Printed herein for presentation, discussion and action by the membership are the three final primary election measures before the voters on Tuesday, May 23, 1972:

REPORTS
ON
CAPITAL CONSTRUCTION BONDS
FOR STATE GOVERNMENT
(State Measure No. 4)

* * *

ENABLING COUNTY-CITY VEHICLE REGISTRATION TAX
(State Measure No. 6)
The Committee: Howard MacAllister, Neil Meagher, and George S. Woodworth, Chairman.

* * *

SCHOOL DISTRICT No. 1 TAX BASE PROPOSAL
(Ballot Measure No. 21)

"To inform its members and the community in public matters and to arouse in them a realization of the obligations of citizenship."
PROPOSED FOR MEMBERSHIP
AND APPROVED BY THE
BOARD OF GOVERNORS

If no objections are received by the
Executive Secretary prior to June 2,
1972, the following applicants will be
accepted for membership:

John A. Nelson, Sales Manager,
UARCO, Inc. Proposed by Charles M.
Chase.

Jay P. Blazek, Certified Public Ac-
countant. Manager, Administrative Serv-
ices, Arthur Andersen & Co. Proposed by
William H. Gregory.

ELECTED TO MEMBERSHIP

Victor E. Kreick, Labor Relations. Job
Analyst, Pacific Coast Association of Pulp
and Paper Manufacturers. Sponsored by
William Zimmerman.

James E. McClellan, Sales Represen-
tative, Continental Can Co., Inc. Spon-
sored by Harvey L. Rice.

SCHOOL SUPERINTENDENT
TO SPEAK ON SURVIVAL
AT JUNE 2 ANNUAL MEETING

"The Survival of Public Urban Edu-
cation" is the topic chosen by Portland
School Superintendent Robert Blanchard
for his speech June 2, 1972 to his fellow
City Club members. Originally Dr. Blan-
chard was to speak on May 26th but it
was agreed the pre-holiday weekend date,
plus the Continuing Legal Education con-
ference of the Bar Association, would de-
plicate the luncheon audience. The May
26th meeting remains cancelled, there-
fore.

MEMBERSHIP SUPPORTS
COMMITTEE RECOMMENDATIONS
ON MEASURES 5, 7, AND 8

Three more primary election measure
reports were approved by the City Club
membership at the regular program meet-
ing Friday, May 12, 1972, following
presentation by their respective chairmen:

State Measure No. 5, "Irrigation and
Water Development Bonds" was present-
ed by Chairman David Crow, and his
motion to support a "yes" vote on the
measure was accepted by a majority voice
vote.

The County Hospital Levy, No. 7 on
the County Ballot, which would allow a
"Five Year Serial Ad Valorem Tax Levy"
of $7,500,000 each year was presented
by Chairman Michael Emmons. His com-
mittee recommendation was for a "no"
vote. Considerable discussion followed
his presentation, but the motion carried
unanimously.

County Measure No. 8, a Home Rule
Charter Amendment to permit the Com-
misision to issue revenue bonds without
voter approval, gained a majority voice
vote in support of the committee's "Yes"
recommendation on the enabling meas-
ure, following Chairman Peter Plum-
ridge's presentation and motion. A chart
recapping committee and membership
recommendations on measures to date is
included elsewhere in this issue of the
Bulletin.
REPORT
ON
CAPITAL CONSTRUCTION BONDS
FOR STATE GOVERNMENT
(State Measure No. 4)

Purpose: This Constitutional Amendment authorizes issuance of general obligation bonds not
to exceed at any one time one-fourth of 1 percent of true cash value of all taxable
property. The bond revenues are to finance the cost of buildings and other state
government projects, and are to be repaid from gifts, rentals, parking and other
building fees. The legislature, however, may impose a property tax if such gifts,
rentals and fees are insufficient to pay indebtedness.

To the Board of Governors,
The City Club of Portland:

I. INTRODUCTION

Your Committee was asked to study and report on a proposed constitutional
amendment submitted to the electorate for consideration at the May 23, 1972
primary election. The measure, which appears as State Measure No. 4 on the
ballot, was referred to the voters by the 1971 Oregon Legislative Session. The
measure, if passed, would authorize bonding up to one-fourth of one percent of
the true cash value of all taxable property in the state to finance state government
building projects. Such projects would be self-liquidating, but the Legislature
would have the authority to impose property taxes if income from the projects
proves insufficient.

II. SCOPE OF COMMITTEE RESEARCH

1. The following persons were interviewed by the Committee as a whole:
   Norman Bradley, Vice President and Manager, Investment Division,
   United States National Bank of Oregon
   Dr. Douglas W. Graham, State Representative
   Keith D. Skelton, State Representative

2. The following persons were interviewed by individual members of our
   Committee:
   George J. Annala, Manager, Oregon Tax Research
   John D. Burns, State Senator, Multnomah County, Senate President
   Robert C. Elgin, Administrator of Real Property Division,
   Department of General Services, State of Oregon
   Nancy Gormsen, Chairman, Capitol Planning Commission
   Floyd Jay Gould, Legislative Fiscal Officer, State of Oregon
   John Gustafson, Assistant Commissioner of Labor, State of Oregon
   Lloyd Knudsen, Executive Director, Legislative and Political Education
   Department, Oregon AFL-CIO
   Walter W. R. May, Public Affairs Advisor, Oregon Voter
   Leander Quiring, Director, Department of General Services, State of Oregon
   Howard Rankin, Bond Attorney

3. In addition, the Committee reviewed published and reference materials as
   follows:
   City Club Bulletin, May 8, 1970,
   "Capital Construction Bonds for State Government"
   Resume of state capital construction projects, provided by the
   Legislative Fiscal Officer, State of Oregon
   League of Women Voters, Vote.
   "Vote yes for four", and Background on Ballot Measure No. 4 by the
   Citizens for Ballot Measure No. 4.
II. HISTORY AND BACKGROUND

State Measure No. 4, "Capital Construction Bonds for State Government" was referred to the voters for consideration in the 1972 primary election by the 1971 Oregon Legislature by a vote of 54 yes, 6 no in the House, and a vote of 28 yes, 1 no and 1 excused in the Senate. A similar measure, adopted by the 1969 Legislative Assembly, was also strongly supported by both Houses, but was defeated by the electorate by a vote of 190,000 yes, 300,000 no.

If adopted, the measure would amend the Oregon Constitution to authorize issuance by the state of general obligation bonds in an amount not to exceed at any one time one-fourth of one percent of true cash value of all taxable property. The proceeds would be used to finance "the cost of buildings, structures, and other projects for state government" and related purposes. The true cash value of all taxable property within the state at January 1, 1971 was $20,260,994,801. Based upon this value, Measure No. 4 would authorize the issuance of general obligation bonds not to exceed $50,652,487.

Such a bonding authorization requires a constitutional amendment in order to avoid the limitations on state debt in Article XI, Section 7 of the Oregon Constitution. That section's limitation of state indebtedness to $50,000 has been amended through the years in order to authorize issuance of bonds to finance construction of highways, power development, veterans' farm and home loans, state reforestation, veterans' bonus payments, and buildings and activities of higher education institutions and community colleges.

The current bonded debt of the State of Oregon, according to the Legislative Fiscal Officer, is $923,503,000, as follows:

<table>
<thead>
<tr>
<th>Bond Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oregon State Highway Bonds</td>
<td>$52,200,000</td>
</tr>
<tr>
<td>Oregon Veterans' Welfare Bonds</td>
<td>685,000,000</td>
</tr>
<tr>
<td>World War II Veterans' Compensation Bonds</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Oregon Forest Rehabilitation and Reforestation Bonds</td>
<td>8,500,000</td>
</tr>
<tr>
<td>Higher Education Refunding and Building Bonds</td>
<td>68,153,000</td>
</tr>
<tr>
<td>Higher Education Bonds:</td>
<td></td>
</tr>
<tr>
<td>Higher Education</td>
<td>44,675,000</td>
</tr>
<tr>
<td>Community College</td>
<td>16,975,000</td>
</tr>
<tr>
<td>Oregon Pollution Control Bonds</td>
<td>45,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>$923,503,000</td>
</tr>
</tbody>
</table>

Construction of state government buildings (other than those for higher education) has been financed by borrowing from various state trust funds, such as the State Accident Insurance Fund, Public Employees Retirement Fund, and the Common School Fund. Interest rates on sums thus borrowed have varied among the different building projects. The Oregon Investment Council has the responsibility for investment of public funds. Adoption of the "prudent man" standard for such investment (Chapter 335, Oregon Laws 1967) presumably will assure that any loan from state trust funds will bear an interest rate no less than the fund could earn if its money were otherwise invested.

The repayment of money borrowed for construction of state government buildings has been from rentals charged the agencies occupying those buildings, set at a rate sufficient to pay the indebtedness over a period of 30 years, as well as maintenance costs. Prior to 1969 such rentals varied from building to building, and state agencies occupying a building which was fully paid for might be charged no rent. The 1969 Legislature required uniform rental rates for all state agencies, regardless of their location, the rentals to be applied upon cost of building acquisition as well as maintenance and operation costs. (Chapter 199, Oregon Laws 1969). The uniform rental rate established under this legislation is now 25 cents per month per square foot of office space occupied.
Presently outstanding loans from trust funds to finance completed state government buildings are reported by the Legislative Fiscal Officer to be the following:

<table>
<thead>
<tr>
<th>Building</th>
<th>Interest rate</th>
<th>Amount outstanding 4/1/72</th>
<th>Building</th>
<th>Interest rate</th>
<th>Amount outstanding 4/1/72</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Agriculture</td>
<td>4.75%</td>
<td>$944,348</td>
<td>Labor &amp; Industries</td>
<td>4.00</td>
<td>$2,547,216</td>
</tr>
<tr>
<td>Pendleton Branch Office Building</td>
<td>4.50</td>
<td>131,564</td>
<td>Salem Annex Building</td>
<td>6.00</td>
<td>81,429</td>
</tr>
<tr>
<td>Portland Parking Structure</td>
<td>6.00 to 7.00</td>
<td>$2,175,280</td>
<td>Capitol Building remodeling and air conditioning</td>
<td>6.40 to 6.75</td>
<td>$477,549</td>
</tr>
<tr>
<td>Eugene Branch Office</td>
<td>4.50</td>
<td>376,044</td>
<td>Multi-Story Office Building</td>
<td>8.125</td>
<td>252,139</td>
</tr>
<tr>
<td>State Office Building, remodeling</td>
<td>8.75</td>
<td>228,168</td>
<td>Capitol Building remodeling</td>
<td>9.50</td>
<td>369,100</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$7,582,837</td>
<td>Total</td>
<td></td>
<td>$7,582,837</td>
</tr>
</tbody>
</table>

In addition, the following construction projects have been authorized:

<table>
<thead>
<tr>
<th>Building</th>
<th>Interest rate</th>
<th>Estimated completion date</th>
<th>Loan authorization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supreme Court</td>
<td>7.75%</td>
<td>12/20/72</td>
<td>$1,962,205</td>
</tr>
<tr>
<td>Labor &amp; Industries (Workmens Compensation remodeling)</td>
<td>8.00</td>
<td>12/1/72</td>
<td>129,850</td>
</tr>
<tr>
<td>Capitol Building remodeling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>first and fourth floors</td>
<td>7.75</td>
<td>2/20/73</td>
<td>1,058,000</td>
</tr>
<tr>
<td>Employment Building</td>
<td></td>
<td></td>
<td>5,151,124</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$8,301,179</td>
</tr>
<tr>
<td>Total Loan Obligation</td>
<td></td>
<td></td>
<td>$15,884,016</td>
</tr>
</tbody>
</table>

IV. ARGUMENTS IN FAVOR OF MEASURE No. 4

1. When it is necessary to construct additional state government buildings and parking facilities, it is not practicable to finance such construction by general fund appropriations. At present, such funds are obtained by borrowing from state trust funds. The interest rate on such loans must be comparable with commercial rates, whereas Measure No. 4 would allow financing through bonds carrying 2½ to 3 percent lower interest rates. Thus, Measure No. 4 would provide the Legislature with a lower-cost alternative to the present method of financing such construction. The resulting savings would be available either for other government programs or for tax relief.

2. The Legislature would be authorized to issue bonds under this measure only if it were anticipated that the construction to be financed would be self-liquidating. While the measure does allow a state property tax to be imposed to cover any deficit (should a project fail to be self-liquidating), the state has never exercised its power to establish a property tax with regard to any similar bonding measure, and there is no reason to suspect that it would have any need to exercise such power in this case.

3. There is adequate protection that the authority granted by this measure will not be misused. Only the Legislature can authorize new construction for which the bonds could be issued. It may reasonably be assumed that elected representatives will not authorize any construction not in the best interest of the state.
V. ARGUMENTS AGAINST MEASURE No. 4

1. Inadequacy of revenues, such as rentals, building fees, etc., to service and retire the bonds could result in levy of a state property tax.

2. The measure's authorization of bonding "buildings, structures and other projects for state government" is excessively broad, and could encourage construction of projects which do not merit the lending of the state's credit.

3. The wording of Measure No. 4 deceptively implies that bonds issued under its authority will be self-liquidating. In fact, such bonds would be serviced and retired chiefly from office rentals paid by the state departments and agencies from their general fund appropriations. Thus, in reality, the bonds would be paid out of state tax revenues.

4. It is very possible that the authority granted by Measure No. 4 would be utilized by the State Emergency Board at a time when the Legislature is not in session, rather than by the Legislature itself, thus putting the actual power in a group which is not as fully representative of the people as is the Legislature.

5. There is no demonstrated need for additional state construction or site acquisition at this time.

VI. DISCUSSION

The constitutional amendment is virtually identical with Measure No. 1 which was put before the voters in the May primary election of 1970. Measure No. 1 in 1970 was the subject of a thorough report by a City Club committee headed by Mr. Robert M. Kerr, and your Committee's investigation was greatly aided by that report.

Proponents have argued that it is more appropriate to think of these bonds as revenue bonds, although they are officially general obligation bonds. Currently all state agencies pay rent, whether located in a state structure or privately owned buildings, and these rent funds would pay the bonding obligations. Your Committee would point out, however, that the rent money comes out of a state agency's budget and the funds to finance that budget usually are the general funds of the State of Oregon.

The proponents and the language of the bill suggest that only those projects will be undertaken which will create enough rent revenue to be self-liquidating. A careful reading of the bill, however, would reveal that this does not have to be the case. The last sentence of Section 2 of the measure reads "All unpledged net revenues of existing buildings, structures and other projects for state government may be pooled with the net revenues of new buildings, structures and other projects in order to render the new buildings, structures and other projects self-liquidating and self-supporting."

This means that if an undeveloped site (permissible under the measure) is purchased with bond funds, it can be considered self-liquidating if there is sufficient surplus from other rentals to cover its costs. In other words, the state's total current rental expenditures are to be deducted from its total current rental revenues, and any resulting surplus can be added to the actual income capacity of a proposed new state construction project (or site acquisition) for purposes of determining whether the new project is self-liquidating or not. Should the state be mistaken in its analysis, the measure authorizes the state to use its taxing powers to make up the deficit. Your Committee's investigation shows that the state has never, on similar bonding measures, had to use general taxing powers, but the possibility is there.

In spite of such possibility, the costs to the taxpayer are less if all state agencies are housed in state-owned buildings. A December, 1968 analysis by the State Department of Finance shows the cost of one square foot of privately-owned, leased, usable office space over a thirty-year period to be $234.48 compared with $168.39 for state-owned space. The spread is greater after the building amortization period has elapsed.

Proponents speak of a great need for additional office space. The state presently leases approximately 270,000 square feet from private parties. This space is
scattered around Salem, Portland and the rest of the state. Unquestionably the size of state government increases with the growth of total population. If the growth of space requirements is projected at one and three-fourths percent annually (projected by the Department of General Services), the additional space needed over the next decade will be 60,000 square feet per year, or the equivalent of a new Labor and Industries Building every two and one-half years.

While the proponents are probably correct in their projected growth ratios, opponents of the measure point out that there is not in existence a thorough study of state manpower needs. First, the opponents say, examine state agencies to see if there is not unnecessary manpower and duplication of efforts. Only if such a study shows a need, should fifty million dollars be made available to build new structures. They argue that, if passed, this measure would be a disease that would feed on itself—to fill unneeded office space constructed under this measure. unnecessary additional state employees would be hired.

This measure is not self-executing and before any money may be spent, the Legislature (or the Emergency Board when the Legislature is not in session) must authorize specific projects. Your Committee is surprised, however, that the Legislature would ask the people of the State of Oregon to authorize a fifty-million dollar bonding capacity without explaining in more detail the projects for which the funds are to be spent.

Proponents in Salem believe that the money is intended to improve the Capitol complex itself, but the measure is not limited to Salem. The language of the measure is quite broad. Section 1, subsection (2) states “to construct, improve, repair, equip and furnish buildings, structures and other projects for state government, and to purchase or improve sites therefor.”

Opponents also point out that by broadly worded authorization, decisions to erect major buildings may fall to the discretion of the Emergency Board when the Legislature is not in session, and, they say, such a board was not intended to usurp the powers of the Legislature. Your Committee did not reach a conclusion as to the merits of this argument, because the scope of Measure No. 4 is simply to provide inexpensive financing by bonding, and does not need to be the battleground on the question of allocation of power.

In spite of the recommendation of the City Club in 1970, Measure No. 1 (the current measure’s predecessor) went down to resounding defeat and did not carry a single county. Briefly, if speculatively, your Committee tried to analyze the reasons for the measure’s defeat. First, 1970 was not a good year for bond measures. Only one — pollution control — succeeded in the primary. Second, the measure would authorize general obligation bonds and as such appeared to many to be a property tax measure when in fact this was not necessarily the case. Third, in 1970, as now, it was unclear what would be done with the money. And fourth, in 1970 there was no concerted effort or reported expenditures by proponents or opponents of the measure, making it likely that few voters were aware of its contents prior to voting.

VII. CONCLUSION

The Committee is of the opinion that this measure should be approved. To the extent any building is financed through the issuance of such bonds, rather than borrowing from the trust funds, it saves between 2 1/2 and 3 percent. It makes good sense and is prudent business judgment for the state to utilize the most economical means of obtaining the money for capital construction. It is not practical to finance needed construction from the general fund, and the financial advantage of bonding rather than continued borrowing from the trust funds is, the Committee believes, clear and substantial. While there are adequate bonding safeguards in the measure, it is dependent on the character of the Legislature and state officials for protection against abuse of this bonding authority. The Committee criticizes, however, the lack of information on the needs and planning for the construction which might be authorized under this measure.
VIII. RECOMMENDATION

Your Committee recommends that The City Club of Portland go on record as favoring this constitutional amendment and urges a vote of "Yes" on State Measure No. 4.

Respectfully submitted,
Richard A. Davis
Robert T. Huston
Don A. Johansen
Adolph E. Landau
Robert M. York, and
David S. Shannon, Chairman

Approved by the Research Board May 11, 1972 for transmittal to the Board of Governors. Received by the Board of Governors May 15, 1972 and ordered printed and distributed to the membership for presentation, discussion and action on May 19, 1972.
REPORT
ON
ENABLING COUNTY-CITY VEHICLE
REGISTRATION TAX
(State Measure No. 6)

Purpose: Allows counties to levy $10 annual vehicle registration tax for highway and park purposes. Exempts certain trailers, campers, mobile homes and other vehicles. The county and cities in county would share revenues equally. The county may instead levy a tax of $5 solely for its own purposes or if required by cities, must levy a $5 tax for distribution to cities in county.

To the Board of Governors,
The City Club of Portland:

I. INTRODUCTION

Your Committee was appointed to consider and report on State Measure No. 6 on the May 23, 1972, primary election ballot. This measure would permit three alternate motor vehicle taxes:

Section 2 of the act permits the county to levy a $10.00 annual motor vehicle tax on each vehicle in the county in addition to the existing license fee. Monies collected from this tax would be distributed 50 percent to the county and 50 percent to the cities within the county based on population, not car registration, or the county may, under

Section 6, levy a tax of $5.00 per motor vehicle on each vehicle in the county, the proceeds of which shall be distributed to the county, or under

Section 9, levy a tax of $5.00 on each vehicle in the county which will be distributed to the cities within the county, based on population of the cities, provided that cities representing 60 percent of the population of all cities in the county have enacted appropriate ordinances.

The measure was passed by the 1971 Oregon Legislature, but its effective date was suspended by the filing of a referendum petition circulated by Mr. Leslie V. Bahr of Salem, and fulfilling the requirement of at least 50,000 signatures.

II. SCOPE OF INQUIRY

Members of the Committee conducted telephone interviews with several county and city officials and with persons identified in support or in opposition to the measure. Interviewed were:

David H. Dockham, Executive Assistant to Mayor Terry D. Schrunk
Charles Martin, Councilman, City of Milwaukie
William Masters, Commissioner, Washington County
Eugene Pfeifer, Committee for Auto Revenue Sharing
Fred Stephani, Commissioner, Clackamas County

III. DISCUSSION

Proponents of the measure, both in hearings before legislative committees and in material distributed since the referendum was placed on the ballot, point out the need in counties and cities for additional revenue for the maintenance of county and city roads and streets. Funds which would become available from this tax would be committed to street improvements, to providing additional police facilities, and to maintenance and development of parks. The proponents cite a variety of needs:
Multnomah County has indicated that the tax would provide an additional $1,900,000 annually, which amount would be used to continue existing services for the Department of Public Works, Department of Public Safety, and County Parks Department. No new plans have been developed since increased costs have depleted monies budgeted. The funds are needed to provide the services already planned.

The City of Portland has outlined in considerable detail the manner in which it would use the projected revenue of $5.3 million over a three-year period. Sixty percent of the revenue has been designated for streets and engineering. These include programs to increase children safety by installation of new traffic signals and construction of school overpasses; general public improvements such as new curbs and draining, new sidewalks, and road improvements; and for the replacement of old traffic signals. Additionally, 20 percent of the revenue would be used on an extensive park improvement plan, and the other 20 percent would be used for appointment of additional patrolmen and replacement of police vehicles.

Washington County has had a serial levy for road maintenance and construction. This levy has now expired, and the county is in need of funds to continue its roads program. The major portion of funds developed by the vehicle tax would be used for this purpose, since the county has no parks program and is in the second year of a five-year serial levy for funds to support its police program.

Clackamas County is currently maintaining 1900 miles of county roads on a minimum basis by means of a levy for that purpose. Additional revenue developed from the proposed motor vehicle tax would be used to provide revision of dangerous intersections and corners, and to give greater surface maintenance to existing roads. In addition, funds would be expended to develop and maintain thirteen existing parks and to bolster the facilities of the sheriff’s office.

The City of Milwaukee reports that the need for street funds is acute and the revenue from the tax, if the measure passes, would be used primarily for street improvement and maintenance.

IV. ARGUMENTS FOR THE MEASURE

Arguments advanced to your Committee in favor of the measure included:

1. Need: All officials of local governmental units who have been interviewed have indicated the need for additional revenues.

2. Certainty of Collection and Distribution: The funds will be collected by the state at the time of license renewal and will be distributed to the counties and cities by the state. The certainty of collection and distribution to appropriate local governments is assured.

3. Vehicle Licensing is Not Burdensome in Oregon: Oregon’s present $10 Motor Vehicle License Fee is the next to the lowest in the nation. If the measure passed and the full additional $10 is levied, the fee would still be ranked low—42nd among the 50 states.

V. ARGUMENTS AGAINST THE MEASURE

The main opponent of the measure, Leslie V. Bahr of Salem, was out of town for several days during your Committee’s investigation and could not be reached for comment. His written statement in the official Voters Pamphlet states that the proposed tax is “unjust, unfair and inequitable”.

Recent letters to the editor of the local newspapers have complained the tax is not graduated according to the value of the auto license and is therefore unfair.
VI. CONCLUSION

Your Committee is of the opinion that the proposed tax is no more unjust or unfair than the existing motor vehicle license tax. As to the charge that the tax would be inequitable, your Committee is of the opinion that a gasoline tax might be more equitable in that it would, to a greater extent, be a use tax. But even a gasoline tax has some elements of inequality, since damage or wear to highways is not dependent in whole on the amount of gasoline a vehicle consumes. Although the across-the-board statewide increase in vehicle fees, allocated to the counties on the basis of registration, might be a better plan, Measure No. 6 will accomplish substantially the same purpose.

By Constitution the use of such monies would be limited to the specified uses related directly or indirectly to car use. These funds cannot be diverted to other uses.

Your Committee has concluded that a need exists on the part of some counties and cities for additional street, highway and related improvements. Measure No. 6 provides such funds and makes collection certain and distribution accurate. Furthermore, the local public improvements would be paid for by those most benefiting from them—the car owners.

Your Committee feels the advantages of the proposed vehicle tax appear to outweigh the arguments against such a tax.

VII. RECOMMENDATION

Therefore, your Committee recommends that the City Club of Portland go on record as favoring the County-City Vehicle License Tax, and urges a vote of "Yes" on State Measure No. 6.

Respectfully submitted,
Howard D. MacAllister
Neil Meagher, and
George S. Woodworth, Chairman

Approved by the Research Board May 15, 1972 for transmittal to the Board of Governors.
Received by the Board of Governors May 15, 1972 and ordered printed and distributed to the membership for presentation, discussion and action May 19, 1972.
REPORT ON

SCHOOL DISTRICT No. 1
TAX BASE PROPOSAL
(Ballot Measure No. 21)

EXPLANATION: Revenues for the Portland schools are inadequate to maintain an educational program which meets state standards for the required 175 instructional days. Unless the present $51,576,120.02 tax base is increased to meet 1972 costs Portland schools will again fail to meet state standards and the quality of education will seriously decline. A tax base of $64,524,120 is required for the schools, with a maximum levy estimated at $16.21 per $1,000 of true cash value (up $2.27 over the 1971-1972 levy), compared with an estimated average $21.01 now being levied by surrounding districts for their schools.

If this measure is approved, the operating budget to be financed by local taxes for the tax year 1972-1973 will be $12,270,935 greater than the operating budget financed by local taxes for the preceding year. After allowances for discounts, delinquencies and authorized increases, only $8,764,023 thereof will result from this measure.

QUESTION: Shall the present $51,576,120.02 tax base of School District No. 1, Multnomah County, be increased and reestablished commencing with the fiscal year beginning July 1, 1972 at the amount of $64,524,120, resulting in a tax rate increase estimated at $2.27 per $1000 of true cash value of taxable property?

To the Board of Governors,
The City Club of Portland:

I. INTRODUCTION

Your Committee was established in March, 1972 to report and recommend a "yes" or "no" vote on the May 23, 1972 Tax Base Election for School District No. 1, Multnomah County. The subject ballot measure seeks to expand the school district tax base from $51,576,120 to $64,524,120 in order to finance a full program and full school year in 1972-1973. This increase would require $34.05 more per year in tax payment for the owner of a $15,000 home in the School District.

The budget to be financed by the proposed increased school tax base is termed the General Fund, about 75 percent of which comes from local property taxes, and 25 percent from various other sources. It must be remembered that the School District also spends additional monies which are not supported by District property taxes. Total expenditures in 1971-1972 were $80.3 million. (See Table 1).

TABLE 1
Sources of Funds Spent 1971-72

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$67,014,000</td>
</tr>
<tr>
<td>Cafeteria Fund</td>
<td>3,665,000</td>
</tr>
<tr>
<td>Building Fund</td>
<td>1,636,000</td>
</tr>
<tr>
<td>Special Funds</td>
<td>8,000,000</td>
</tr>
<tr>
<td>Trust Fund</td>
<td>10,000</td>
</tr>
<tr>
<td>Sylvan Debt Fund</td>
<td>11,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$80,336,000</strong></td>
</tr>
</tbody>
</table>

1Oregon Law (ORS 310.395) requires some of this exact wording on the ballot. Your Committee considers it confusing. The rationale for raising $12.9 million in taxes to achieve $8.8 million in benefits is not stated.

2Includes $405,000 to supplement the Cafeteria Fund and matching contributions (cash, personnel, and facilities) necessary to obtain Special Funds.

3Approximate.
Note also that $67 million for General Fund expenditures is not normal, since the 1971-72 school year was reduced 10 percent.

The Committee interviewed elected and staff personnel from School District No. 1, and individually questioned numerous other interested persons. However, the Committee did not undertake to evaluate the relative worth of different school programs nor to evaluate the school budgeting process in detail. The scope of this report does not include evaluation of comprehensive tax reforms for public education support which have been proposed and discussed in state government.

II. BACKGROUND

A. Historical: Oregon school districts have long relied on a local property tax to support a large part of their budgets. The dollar amount of each tax levy was originally established by a vote of the people and, under Oregon law, this tax levy amount is not allowed to increase more than 6 percent each year without a vote of the people. The tax levy amount is commonly referred to as the "school tax base".

However, the 6 percent increase in school tax base does not mean a 6 percent increase in the General Funds. It applies only to that portion of the General Fund derived from local property tax. Other monies have no escalation clause. Table 2 shows that other sources of income have in fact declined in recent years.

### TABLE 2

<table>
<thead>
<tr>
<th>Year</th>
<th>School Tax Base</th>
<th>Other Sources</th>
<th>General Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>65-66</td>
<td>$28,024,663</td>
<td>$18,502,312</td>
<td>$46,526,975</td>
</tr>
<tr>
<td>66-67</td>
<td>29,706,142</td>
<td>18,948,583</td>
<td>46,955,000</td>
</tr>
<tr>
<td>67-68</td>
<td>31,535,323</td>
<td>18,682,332</td>
<td>50,217,655</td>
</tr>
<tr>
<td>68-69</td>
<td>43,302,442</td>
<td>18,588,105</td>
<td>61,890,547</td>
</tr>
<tr>
<td>69-70</td>
<td>45,900,589</td>
<td>16,751,902</td>
<td>62,652,491</td>
</tr>
<tr>
<td>70-71</td>
<td>48,656,717</td>
<td>16,672,283</td>
<td>65,329,000</td>
</tr>
<tr>
<td>71-72</td>
<td>51,576,120</td>
<td>15,437,880</td>
<td>67,014,000</td>
</tr>
<tr>
<td>72-73</td>
<td>64,524,120</td>
<td>15,540,801</td>
<td>80,064,921</td>
</tr>
</tbody>
</table>

B. Current Budgets and Tax Burden: The 1971-72 school year in Portland was operated at normal program levels but was shortened 20 days in order to be met by available revenues. On three separate occasions, voters defeated special tax levy proposals to raise, first, $6,900,000, and then, in a subsequent election, the $5,740,000 necessary to operate for a full school year. Wage and salary rates were increased an average of about 5.8 percent, but take-home pay for all personnel was reduced some 10 percent because of the shortened school year. Any use of the 1971-72 year budget for comparative purposes must recognize that the year was shortened by 10 percent. Table 3 compares estimated budgets for the years 1971-72 and 1972-73.

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4Gross amount. Does not account for discount and delinquency losses; other sources would have to be correspondingly raised to reach the General Fund total.

5Includes a special two-year levy of $2,000,000 per year approved by election of 5/7/65.

6The result of a 6 percent increase over prior year's school tax base plus an approved school tax base increase of $9,875,000.

7This amount did not support a full year of school. Twenty days were eliminated to save $6,070,000.

8The result of this proposed school tax base increase. It includes the allowed 6 percent increase over prior year's school tax base.
### TABLE 3

**School District No. 1 General Fund**

#### Estimated Revenue

<table>
<thead>
<tr>
<th>Source</th>
<th>1971-72 (Reduced Year)</th>
<th>1972-73</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local Sources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>School Tax Base (1971-72 Gross)</td>
<td>$51,576,120</td>
<td>$51,576,120</td>
</tr>
<tr>
<td>School Tax Base Increase</td>
<td></td>
<td>12,943,000</td>
</tr>
<tr>
<td>Gross Levy</td>
<td>51,576,120</td>
<td>64,524,120</td>
</tr>
<tr>
<td>Less Discounts &amp; Delinquencies</td>
<td>(4,926,120)</td>
<td>(7,103,185)</td>
</tr>
<tr>
<td>Plus Prior Years' Property Taxes</td>
<td>3,020,000</td>
<td>4,520,000</td>
</tr>
<tr>
<td>Tax Base (Net)</td>
<td>$49,670,000</td>
<td>$61,940,935</td>
</tr>
<tr>
<td>Temporary Investments</td>
<td>350,000</td>
<td>420,000</td>
</tr>
<tr>
<td>Tuition</td>
<td>101,000</td>
<td>92,500</td>
</tr>
<tr>
<td>Interscholastic Athletics</td>
<td>120,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Miscellaneous (Rentals, Sales, Etc.)</td>
<td>80,000</td>
<td>241,000</td>
</tr>
<tr>
<td><strong>Intermediate Sources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>County School Fund</td>
<td>1,025,000</td>
<td>775,000</td>
</tr>
<tr>
<td>Multnomah County IED Services</td>
<td>575,000</td>
<td>629,800</td>
</tr>
<tr>
<td><strong>State Sources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic School Support</td>
<td>11,543,000</td>
<td>11,643,685</td>
</tr>
<tr>
<td>Disadvantaged Children</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Special Funds (Handicapped, Retarded, Blind, Deaf, Driver Education, Vocational Education, Common School, Special Schools, Other)</td>
<td>2,100,000</td>
<td>2,872,000</td>
</tr>
<tr>
<td><strong>Federal Source</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Law 674</td>
<td>350,000</td>
<td>330,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$67,014,000</td>
<td>$80,064,921</td>
</tr>
</tbody>
</table>

#### Estimated Expenditures

<table>
<thead>
<tr>
<th>Category</th>
<th>1971-72</th>
<th>1972-73</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>$2,556,239</td>
<td>$3,109,156</td>
</tr>
<tr>
<td>Instruction</td>
<td>50,883,532</td>
<td>59,256,020</td>
</tr>
<tr>
<td>Attendance</td>
<td>144,955</td>
<td>177,022</td>
</tr>
<tr>
<td>Health Service</td>
<td>9,810</td>
<td>11,061</td>
</tr>
<tr>
<td>Pupil Transportation</td>
<td>592,621</td>
<td>650,307</td>
</tr>
<tr>
<td>Operation of Plant</td>
<td>6,536,571</td>
<td>7,392,928</td>
</tr>
<tr>
<td>Maintenance of Plant</td>
<td>3,387,969</td>
<td>4,246,407</td>
</tr>
<tr>
<td>Fixed Charges</td>
<td>451,009</td>
<td>1,519,638</td>
</tr>
<tr>
<td>Food Service</td>
<td>96,132</td>
<td>111,085</td>
</tr>
<tr>
<td>Interscholastic Athletics</td>
<td>652,677</td>
<td>694,681</td>
</tr>
<tr>
<td>Community Services</td>
<td>82,491</td>
<td>137,494</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>636,168</td>
<td>899,785</td>
</tr>
<tr>
<td>Transfer of Other Funds</td>
<td>405,000</td>
<td>—</td>
</tr>
<tr>
<td>Payments to Other School Districts</td>
<td>86,800</td>
<td>86,800</td>
</tr>
<tr>
<td>Operating Contingencies</td>
<td>492,026</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Unappropriated Balance</td>
<td>—</td>
<td>572,537</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$67,014,000</td>
<td>$80,064,921</td>
</tr>
</tbody>
</table>

*Note: Some unusually large increases in expenditure categories are caused by a comparison of the 1971-72 shortened school year with a 1972-73 full school year.*

9The $12,270,935 mentioned in the ballot explanation is the difference between these two numbers.

10The $8,764,023 net benefit mentioned in the ballot explanation is calculated by subtracting from this number $53,176,912, which is the net local property tax income without the $12.9 million school tax base increase (but with a 6 percent school tax base increase).
Consideration of the tax burden on the homeowner and business in Portland is just as important as a study of how school money is spent. In the fall of 1971, the School Board established a Citizens' Committee on School Finance and charged it with studying and making recommendations on the District's "need for — and effective use of — its operating funds" as well as suggestions for methods of raising the funds. Table 4, extracted from the 1972 Report of the Citizens' Committee, shows that, while Portland's school tax rate per $1,000 of assessed property value is much less than that of surrounding districts, other tax burdens make the total local property tax rate quite similar to that of surrounding districts.

**TABLE 4**

Composition of Property Tax Rates in Portland (School District No. 1) And Surrounding School Districts — 1971-72

<table>
<thead>
<tr>
<th>District</th>
<th>School Rate</th>
<th>City Rate</th>
<th>County Rate</th>
<th>Other</th>
<th>Total Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portland</td>
<td>$13.94</td>
<td>$8.43</td>
<td>$5.19</td>
<td>$1.81</td>
<td>$29.37**</td>
</tr>
<tr>
<td>Lake Oswego</td>
<td>23.45</td>
<td>6.55</td>
<td>1.34</td>
<td>.79</td>
<td>32.13</td>
</tr>
<tr>
<td>Oregon City</td>
<td>21.13</td>
<td>6.51</td>
<td>1.34</td>
<td>3.12</td>
<td>32.11</td>
</tr>
<tr>
<td>David Douglas</td>
<td>20.01</td>
<td>—</td>
<td>5.19</td>
<td>7.12</td>
<td>32.32</td>
</tr>
<tr>
<td>Parkrose</td>
<td>21.21</td>
<td>—</td>
<td>5.19</td>
<td>6.43</td>
<td>32.83</td>
</tr>
<tr>
<td>Reynolds</td>
<td>20.32</td>
<td>7.02</td>
<td>5.19</td>
<td>6.10</td>
<td>38.63</td>
</tr>
<tr>
<td>Beaverton</td>
<td>22.75</td>
<td>3.90</td>
<td>2.23</td>
<td>1.62</td>
<td>30.50</td>
</tr>
<tr>
<td>Tigard</td>
<td>18.23</td>
<td>2.48</td>
<td>2.23</td>
<td>4.37</td>
<td>27.31</td>
</tr>
</tbody>
</table>

*Tax rates of other school districts include amounts for special operational levies and school building programs (bonds). School District No. 1 has no special levy nor school building program supported by taxes at this time.

**Portland taxes consist of:

<table>
<thead>
<tr>
<th>Component</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>County</td>
<td>$5.19</td>
</tr>
<tr>
<td>Port of Portland</td>
<td>1.06</td>
</tr>
<tr>
<td>City of Portland</td>
<td>8.43</td>
</tr>
<tr>
<td>Schools</td>
<td></td>
</tr>
<tr>
<td>Multnomah County IED</td>
<td>4.78</td>
</tr>
<tr>
<td>School District No. 1</td>
<td>9.16</td>
</tr>
<tr>
<td>Metro Community College</td>
<td>.75</td>
</tr>
<tr>
<td></td>
<td>$29.37</td>
</tr>
</tbody>
</table>

Similar perspective on a national basis was developed by the Citizen's Committee. Data showing the total state and local tax burden for the largest city in each state ranked Portland 15th in the nation.

**III. DISCUSSION**

A. **Why Does the School District Need Such A Large Increase in Its Budget?**

Below are resumes of expenditure categories which your Committee feels are most significant and account for nearly all of the increases:

1. **Resumption of Full School Year: 1972-73 Budget Increase—$6,070,000.**
   
   Almost a 9 percent increase in the 1972-73 General Fund budget is proposed to restore 20 days of school at 1971-72 levels. Approximately $5.3 million of this amount is due to direct wage and salary costs and another $0.6 million is due to fringe benefit costs.

2. **Increases in Direct Wages and Salaries: 1972-73 Budget Increase—$3,172,561.**
   
   The School Board has nearly completed agreements with all employees granting an average 5.72 percent pay increase for 1972-73. This amount includes a cost-of-living adjustment. This item is the dollar amount of increase beyond that required to support a full school year at 1971-72 levels.
   This increase restores contingency funds to a level judged adequate by the
   School Board. Larger contingency percentages have been used by the
   District in former years. An unappropriated balance of $572,537 is re-
   served to help meet costs of the 1973-74 school year where the 6 percent
   school tax base increase may be inadequate.

4. *Fixed Charges: 1972-73 Budget Increase*—$1,100,000.
   Almost all of this increase is in a one-time payment into a merged em-
   ployee pension fund. The payment brings the reserves of the previous
   local pension plan into line with the statewide public employees retirement
   system.

   This increase, again representing costs above a full 1971-72 school year,
   is composed of increased employer contributions to Social Security, pen-
   sion funds and health insurance programs.

   Inflationary cost increases require this additional expenditure for commod-
   ities purchased by the district.

B. *Why Can't the District Live Within It's 6 Percent Limitation?*

   District No. 1’s tax base for the current year is $51.6 million. Voters may
   believe that a 6 percent increase will produce an additional $3.1 million to spend
   on schools. But, $3.1 million will not be collected. Many taxpayers take advantage
   of the 3 percent discount for early payment of property taxes. This, coupled with
   delinquent payments, reduces theoretical levy receipts by a substantial amount.

   The following table illustrates the difference between amounts levied and ac-
   tually received in recent years:

<table>
<thead>
<tr>
<th>Year</th>
<th>Levy in Millions</th>
<th>Actual Receipts in Millions</th>
<th>% Levy Collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968-69</td>
<td>$43.3</td>
<td>$41.7</td>
<td>96.4</td>
</tr>
<tr>
<td>1969-70</td>
<td>45.9</td>
<td>43.8</td>
<td>95.4</td>
</tr>
<tr>
<td>1970-71</td>
<td>48.6</td>
<td>46.5</td>
<td>95.6</td>
</tr>
<tr>
<td>1971-72</td>
<td>51.6</td>
<td>49.7</td>
<td>95.3</td>
</tr>
</tbody>
</table>

   In short, past experience shows that District No. 1 will collect about 96 per-
   cent of the amount it levies. If it levied $51.6 million plus 6 percent in 1972-73,
   it would predictably collect a net increase of $2.8 million, or 5.6 percent.

   But the root question remains, "Why can't an additional $2.8 million pay the
   bills?"

   1. Most costs have risen in excess of 5.6 percent per annum. Wages, salaries
      and fringe benefits of all employees (about 81 percent of the total General Fund
      budget) will increase $4 million in 1972-73, a one-year percentage jump of 6.2
      percent. No evidence was found to indicate that this raise is unreasonable. Even
      with a current surplus of teacher personnel, Portland must compete with existing
      markets for competent teachers. Moreover, the Citizens' Committee found that the
      cost of living rose about 3 percent in Portland in the last year, making real raises
      relatively moderate.

   2. The General Fund budget includes funds from non-property tax sources
      which are not subject to the annual 6 percent escalation provision.

      Presently, about one-quarter of the General Fund budget (See Table 2) is
      supported by non-property tax receipts, which are unpredictable because they are
      legislative or congressional allocations.

      So long as property tax dollars and non-property tax dollars are lumped to-
      gether into one general budget, there is no reasonable percentage increase in the
      school tax base which would adequately meet budgeting needs. One approach
      might be to cleave the General Fund into activities supported and not supported
      by the tax base. This would at least permit the public to identify what kinds of
      dollars are buying what kinds of programs.
3. Schools are increasingly taking on, or being asked to assume, social roles beyond traditional bounds or the "Three R's". Insofar as federal and state dollars are used to pay for that undertaking, the general budget is increased, creating a base of what is deemed to be "quality education" from which it becomes difficult to retreat. Attempts should be made to establish standards for adopting, retaining and eliminating non-"Three R" programs so that the public can make decisions about use of school tax dollars to undertake sociological pursuits.

C. Are School Funds Being Used Effectively?

The question cannot be answered to everyone's satisfaction; the answer requires a value judgment about which reasonable men may differ.

1. Programs: Your Committee is confident that most specific program decisions are competently made by the District and the School Board. Nevertheless, some questions arise.

There appears to be an increasing tendency for the schools to try to be all things to all people. Although this may be a commendable objective when ample funds are available, how realistic is it in view of the District's financial crisis of recent years?

For example, the following programs have been added in the last five years: Clerical-Medical, Health Occupations, Hospital Worker, Nurses Aide, Medical Assistant, Dental Assistant, Cosmetology, Food Preparation, Wood Products, Agricultural Business.

The Citizens' Committee concluded that although vocational education in general is more expensive than an academic one, and although a small percentage of students enrolls in vocational education classes, the extra cost of vocational education is justified. While your Committee agrees with this general conclusion, it also believes there must be a practical limit set on the number and variety of vocational and other special offerings. In a time of financial crisis, the District needs to have program priorities. If funds are not available for all programs, those with lower priority should be cut.

The Committee thus believes that the District is open to criticism for cutting all programs across the board this past year. By doing so, the District appears to assume that all of its many and varied programs are of equal value. The Committee doubts that this is true.

If operating funds are insufficient in the coming year, the District has indicated that it will eliminate kindergarten. This would be akin to shortening the school year and is open to the same criticism, for it affects all of the District's children of a particular age. Although it may be simpler to cut one costly program like kindergarten rather than several less costly ones, it might also be more irresponsible from the standpoint of getting the most for the educational dollar.

2. Special Projects: The School District conducts various special projects. Many provide compensatory education to disadvantaged children. Most are at least partially supported, and some entirely supported, by non-General Fund revenues. Examples include: Residential Manpower Center (occupational training at ages 16 to 22); Neighborhood Youth Corps (training and employment for students of low-income families); Driver Training; Environmental Education; Elementary and Secondary Disadvantaged (compensatory support to students whose educational progress has been impeded by economic and social needs); Vocational Training for Mildly Mentally Retarded; Handicapped Children Project; Head Start (physical, social and educational opportunities for 350 four-year-olds from disadvantaged backgrounds); Follow Through (continuing support for primary grade children who have participated in Head Start); Extended Day Child Care (supervised child care activities for 400 K-8 children of working parents); the School Lunch Program (free and reduced price meals for approximately 10,000 youngsters from low-income families); Disadvantaged and Handicapped (projects of a vocational nature), and numerous other projects.
Many special projects are supported fully by federal, state or foundation funds and therefore do not require General Fund revenues for support. Others do require local support from General Fund revenues or "in kind" contribution of volunteer personnel or space supported by General Fund revenues.

In 1972-73 an estimated $9,943,222 will be spent for special projects, an increase of $408,799 over 1971-72. Of this total, about 10.8 percent or $1,078,149 will be financed by the District. Special projects, to the extent that they cost the District anything, should be evaluated by using the same standards as applied in evaluating General Fund programs.

3. Program Development: Program development funds are used for research and development of new and existing programs to improve instruction. In 1971-72, the District appropriated $500,000 for program development. In 1972-73, these funds will be increased by $900,000. Results of these efforts are evaluated and communicated to District administrators and the School Board. If successful, a program developed with these funds may later be adopted on a wider scale.

The District is to be commended for its efforts to improve its instructional programs. Last year, program development funds were used to expand or develop non-graded instruction, music-language arts, social studies programs, a computer math program, a consumer education project, a Cleveland High School-Child Guidance Clinic 'Rap Room', a Washington High School Vocational Center, teacher evaluation procedures, prototype spelling programs and career education programs.

4. Administration: The District has made efforts to reduce administrative costs. In 1970 the District was divided into three areas, each administered by an area superintendent with his own staff of administrators and specialists. Each area has a citizens' advisory committee which advises the area superintendent in matters of educational, building and operational needs.

Notwithstanding this decentralization, a net reduction of twenty-seven administrative and supervisory personnel positions has been made since 1968-69. According to District calculations, if the administrative group employed in 1968-69 were still employed, an additional $508,121 would have been needed this year.

5. Budgeting: The District is also gradually shifting to a new budgeting system known as the Program Planning and Budgeting System, often referred to as "management by objectives". The long range goal of this new budgeting system is to make the District's budget document more understandable and more useful in evaluating the cost effectiveness of District programs. In line with the new budgeting system, the budget-making process has been revised and now progresses upward from the teacher level at each school within guidelines set by the District and with definite goals in mind. Thus, there is a wider input than before that will hopefully reflect actual needs more accurately.

Budget control appears to have improved. Reports on expenditures in various budget categories are now available soon after the expenditures are made. Formerly, six months or more were required to obtain expense information, making monitoring of District expenditures during a school year very difficult. Much of the District's budget data are now on computer, with the hope of reducing clerical time by 6,000 hours in 1972-73.

6. Business Management: The Citizens' Committee reported that efforts have been made toward increased economy in the management of the District's business affairs. These efforts include consolidation of purchasing to obtain quantity discounts, centralizing food preparation, plans for sharing computer time and plans for the central warehousing of supplies. Efforts

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1Letter from Dr. Edwin Schneider, Superintendent's Associate, School District No. 1, April 25, 1972.
are also underway to determine whether the District can save maintenance
and repair costs by having at least some of the work performed by private
contractors.

7. Lack of Communication: Whether or not school funds are used effectively,
your Committee developed the strong conviction that communications be-
tween school officials and voters is inadequate. It is no longer satisfactory
to say that he who wishes to know about the schools should attend board
meetings and make an effort to find out. Citizens have the right to expect
that managers of public funds explain their intended programs in a man-
ner understandable to the layman. Any citizen who attempts to understand
the workings of District No. 1 will discover the system is expressed in, and
is perpetuated by, budgetary and educational idioms.

It is significant that the City Club's conclusions regarding this inability
to communicate are much the same as those of the Citizens' Committee.
This is emphasized to demonstrate that there is a commonality of frustra-
tion to which some "cure" should be promptly addressed.

8. Summary: Your Committee believes that, in general, School District funds
are being used effectively. Efforts are being made to improve District edu-
cational programs, reduce administrative costs, improve budget making
and control and improve the efficiency of business management. The Dis-
trict is to be commended for these efforts. The Committee raises questions,
however, about the seeming proliferation of special programs, many of
which require substantial contributions of local District funds. Like the
Citizens' Committee, your Committee would caution against the
acceptance
of funds from federal and other sources earmarked for special projects
without evaluating all ramifications in the context of established educa-
tional goals, including the effect of these funds on the regular tax base.

D. What Are the Alternatives to A Tax Base Increase?

In asking for a tax base increase, the School Board is following a recommen-
dation of the Citizens' Committee. The recommendation was made only after it
was determined that the needed additional revenues would not be available from
federal, state or other sources.

Table 2 shows that the percentage of the District's total operating funds com-
ing from state and other non-local sources has been declining in recent years.
Hence, any additional operating funds needed must come from the local property
tax. It has been shown that the need cannot be fulfilled by the local property tax
within the six percent limitation. Additional local funds beyond this limitation can
be obtained only by voter approval of a special operating levy or a tax base increase.
The District is asking for a tax base increase instead of a special levy primarily
because the former, if approved, is more permanent and therefore permits longer
range planning. It also reduces the number of special elections required, for which
the District must pay. The proposed tax base increase should be adequate to meet
the District needs for at least the next two school years.

The Citizens' Committee has proposed, as has Governor McCall, that the state
increase its support of public elementary and secondary schools to reduce the
dependency of school districts on the local property tax for operating funds. No
doubt much of the impetus for these proposals results from a 1971 California
State Court decision, Serrano v. Priest. In Serrano the Court ruled that the in-
equalities in per-pupil expenditures between districts, which result from reliance
on the local property tax for most school operating funds, violated the equal
protection clause of the California Constitution.12 Oregon and most other states
have public school funding systems similar to the California system.

Serrano does not, however, forbid the use of the local property tax to support
education. Instead it requires that per-pupil expenditures in different districts be
equalized in some way. Any state action to equalize per-pupil expenditures among
districts would more likely provide state funds to supplement rather than elimi-
nate the property tax as a source of school revenues. There is also the possibility
that Portland, being a "rich" district in terms of assessed property value per pupil,

may not benefit from any state funding plan. The rationale of Serrano has also been criticized in some quarters for implying that equality of expenditures per pupil results in equality of educational opportunity, a premise which some experts believe has no basis in fact.13

In any event, it is much too early at this point to predict the probable impact of Serrano on the funding of our public schools. Any relief of Portland property taxpayers from their major burden of support for District schools would seem to be at least three to four years away and quite likely even more. Therefore, they must resign themselves to the probability that they will bear the brunt of District school funding for at least several more years and will probably be asked for additional funds through future special levies or tax base increases.

E. What Would Be the Impact If the Tax Base Proposal Fails?

Without the new tax base, the District in 1972-73 could levy within the 6 percent limitation property taxes of approximately $54.67 million. Thus, in reality, District taxpayers are being asked to increase the 1972-73 authorized tax base by $9.85 million ($64.52 proposed tax base minus $54.67 authorized tax base within present legal limit.) This increase is expected to yield only $8.76 million in actual tax receipts, after taking into account expected discounts and delinquencies. Therefore, if the tax base proposal fails, $8.76 million must be cut from the proposed 1972-73 General Fund operating budget.

District Superintendent Robert Blanchard has recommended that the entire kindergarten program be eliminated if the measure fails; this recommendation has already received comment. His additional recommendations include shortening of the school year by four days, reduction in athletic programs by 15 percent and reduction in the number of teachers and reduction in teacher support services. The Superintendent estimates that a total of 400 staff positions, including 200 classroom teachers, would be cut. Eliminating kindergarten will cut 100 of these teachers. Three percent of the teaching positions in grades 1 through 12 would also be dropped. Further recommendations include reducing prescriptive education programs14 and social work by 38 percent, cutting administrators and specialists by 12 percent and elimination of attendance counselors.

The Superintendent also proposes that all administrators having teaching certificates except principals, area superintendents and division heads be required to teach two days each month, reducing the need for substitute teachers. Additional suggestions include eliminating the Teacher Corps and New Careers programs and reducing the counseling program by 10 percent, the secretarial and clerical budgets by 10 percent and the custodial and maintenance budgets by 11 percent.

Cutbacks would also likely occur in programs for the disadvantaged, supplementary schools, instructional development and teaching materials.

The State Superintendent of Public Instruction has declared that Portland's public schools are substandard this year for not conducting the state minimum of 175 days of instruction.15 He also has indicated that the District could lose $19 million in state and federal school support funds within the next year if substandard conditions persist.16

The State Superintendent has been quoted as saying "there is no hidden fund in the state coffers which will suddenly appear and bail Portland schools out of the problem. The people simply have to decide whether they want standard and good schools, and if so, pay for them."17

According to the State Superintendent, the District Superintendent's recommended cuts if the tax base proposal fails will also cause the District to be rated substandard and could result in loss of state aid. Such cuts would increase average

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14"Prescriptive education program" involves diagnosis of an individual's learning problems and development of a specific correctional instruction to overcome them.
15The Oregonian, April 28, 1972.
16The Oregonian, April 27, 1972.
17The Oregonian, April 27, 1972.
class sizes to levels that exceed the state maximum. Cutting library services and instructional materials could also result in violations of state standards.

The state has given Portland a grace period to correct its school year deficiency. Even if the tax base proposal fails, the District plans to correct this deficiency. If the proposed budget cut results in the District falling below state standards in other areas, grace periods would probably be given to correct these deficiencies before state funds would be withdrawn. Many state standards are apparently not mandatory but simply serve as guidelines. Apparently the State Superintendent has discretion concerning the withdrawal of state support when a district becomes substandard in certain areas. Portland's schools have been below state standards for years with regard to classroom space per pupil, yet no state action has been taken.

A more widespread impact of failure of the tax base proposal would be its effect on the general health and welfare of Portland. One study over a recent ten-year period\(^{(1)}\) shows that there is already a definite exodus of persons from the central city to the suburbs of Portland, and the people leaving are those with school-age children and those who are best able to support schools. If the quality of education in Portland degenerates, this exodus can be expected to accelerate. The result: a lowering of residential property values, increased difficulties in raising necessary school funds and a general downward spiraling degradation of Portland schools, property values, business and all.

IV. ARGUMENTS FOR THE TAX BASE INCREASE

Arguments presented to your Committee in favor of the measure included:

1. Existing revenues from all sources, including federal, state and local, are inadequate to operate the schools at a satisfactory level, even when local revenue is increased 6 percent yearly as permitted by law without a vote of the taxpayers.

2. Portland schools need the additional money to operate for a full school year, to meet rising costs of supplies and personnel, and to provide minimal maintenance, contingency and program development funds.

3. The local property tax is the only available source of needed additional revenue, at least for the next two to three years.

4. Without increased revenues Portland's educational program will again have to be cut back by cutting existing programs such as kindergartens, reducing the number of teachers in the system and thereby increasing student-teacher ratios, skimping on maintenance, reducing the school year, or all of these.

5. Without the increase in revenues Portland's schools will again not meet state minimum standards, and as a result state funds could be cut, compounding Portland's problem.

6. If Portland's schools remain substandard, its students could find themselves at a disadvantage, as compared with students from other school districts, in seeking admission to colleges and universities.

7. Failure of the local property taxpayers to support Portland's schools could accelerate the flight to the suburbs by taxpayers with school-age children, resulting in a lowering of property values and leading to a general degradation of Portland as a desirable place to live.

8. Portland's taxpayers can afford to support their schools; Portland's school tax rate is lower than the school tax rate in all surrounding districts; Portland's total property tax rate is lower than that in surrounding districts with the exception of Tigard; Portland's assessed valuation per student is second highest in the state among major school districts.

9. Lack of public support for schools can lead to unsatisfactory teaching conditions and a resultant loss of many of the excellent teachers who work for School District No. 1 but who could find employment in growing suburbs.

\(^{(1)}\) Vital Families Moving Out" by Dave Yaden, Metropolis, Portland State University, 1972.
V. ARGUMENTS AGAINST THE LEVY

Arguments advanced to your Committee in opposition to the measure included:

1. Taxes in general are too high, and voting against special school levies and tax base increases are the only way the taxpayers can effectively voice their dissatisfaction.

2. By creating a crisis in the Portland school system, the taxpayer will force corrective action at the state level. If the revenues from the general property tax used for financing public schools are unequally distributed, it is unconstitutional. Major dependence on such financing should be corrected rather than perpetuated as the tax base increase would tend to do.

3. Increasing property taxes is unfair to those on fixed incomes and low incomes.

4. The school system should be able to live on its present income plus the 6 percent increase in local property tax revenues permitted yearly by law without a vote of the taxpayers.

5. Teachers' salaries are too high.

6. There are too many highly paid administrators in the school system.

7. There are too many unnecessary programs in the Portland system.

8. The school district has failed to articulate its need for increased revenues. One should not vote for increased school budgets unless the budget can be studied in detail and understood by all.

VI. CONCLUSION

The Committee, after considering the facts available to it, concludes that the tax base increase is necessary to maintain Portland schools at present educational program levels extended to a full school year, until alternative state or federal financing becomes available.

VII. RECOMMENDATION

Your Committee, therefore, recommends that The City Club of Portland go on record in favor of a "yes" vote on Ballot Measure No. 21.

Respectfully submitted,
Phillip A. Briegleb
John Wiley Gould
Kenneth E. Herber
E. Shelton Hill
James S. Leigh, and
John L. Frewing, Chairman

Approved by the Research Board May 10, 1972 for transmittal to the Board of Governors.

Received by the Board of Governors May 12, 1972 and ordered published and circulated to the membership for presentation, discussion and action on May 19, 1972.
APPENDIX A

City Club Report, May 24, 1968, Vol. 48, No. 52, "School District No. 1 Tax Base Proposal".
City Club Report, September 17, 1971, Vol. 52, No. 17, "School District No. 1 Special Tax Levy Proposal".
Oregon Journal, various articles including those of March 8, January 28, 1972.
Oregonian, various articles including those of January 17, March 9, April 1, 9, 10, 27 and 28, 1972.
Your Taxes, Vol. 37, No. 4, Oregon Tax Research, April 1972.
"Vital Families Moving Out" by Dave Yaden, Metropolis, PSU, 1972.
School District No. 1, Multnomah County:
1971-72 Budget, June, 1971,
1972-73 Budget, May, 1972,
SUMMARY OF CITY CLUB BALLOT MEASURE REPORT ACTION
(May 23, 1972 Primary Election Measures)

<table>
<thead>
<tr>
<th>Ballot Number</th>
<th>Ballot Title</th>
<th>Committee Recommendation</th>
<th>Membership Vote</th>
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<tbody>
<tr>
<td>1</td>
<td>Eliminates Literacy Requirements; Lowers Voting Age</td>
<td>Yes</td>
<td>Yes (Unan.)</td>
</tr>
<tr>
<td>2</td>
<td>Repeals Requirement for Decennial State Census</td>
<td>Yes</td>
<td>Yes (Unan.)</td>
</tr>
<tr>
<td>3</td>
<td>Allows Legislators to Call Special Sessions</td>
<td>Yes</td>
<td>Yes (Maj.)</td>
</tr>
<tr>
<td>4</td>
<td>Capital Construction Bonds for State Government</td>
<td>Yes</td>
<td>Vote 5/19</td>
</tr>
<tr>
<td>5</td>
<td>Irrigation and Water Development Bonds</td>
<td>Yes</td>
<td>Yes (Maj.)</td>
</tr>
<tr>
<td>6</td>
<td>Enabling County-City Vehicle Registration Tax</td>
<td>Yes</td>
<td>Vote 5/19</td>
</tr>
</tbody>
</table>

CANDIDATES UNCHALLENGED FOR 1972-73 CITY CLUB AND FOUNDATION POSITIONS

There having been no additional candidates nominated for any of the positions on the Board of Governors of the City Club of Portland, or the Board of Directors of the Portland City Club Foundation, Inc., by the Club's constitutionally established deadline, the report of the Nominating Committee as published May 12th is uncontested for the June 2nd elections.

Donald J. Sterling, Jr. heads the slate as nominee for president-elect (to serve for a year on the City Club Board and to assume office in June, 1973). Sidney I. Lezak will take office as president following the June 2nd elections, having served as president-elect the past fiscal year.

Candidates for Club officers, who serve one-year terms, are Robert W. McMenemy, first vice president (Chairman of the Research Board); John A. Mills, second vice president (Chairman of the Project Planning Board); Joe D. Kershner, treasurer; James A. Larpenteur, Jr., secretary.

Three Governors will be elected to two-year terms: Jack R. Brown, A. M. Burdge and Neil Farnham. Two Governors will be elected to special one-year terms to fill out the remainder of terms left vacant by the resignation of Dr. Gerald Cogan and Dr. E. Kimbark MacColl. Nominees are Emerson Hoogstraat and Walter C. Reynolds, M.D.

Two vacancies occur on the five-man Board of Directors of the Foundation this year. Nominees are Relph G. Alberger and Lloyd W. Weisensee.

Elections will be held at the first meeting of the 1972-73 fiscal year, June 2, 1972.

CITY CLUB PROGRAMS
BROADCAST THREE WAYS

You don't have to miss the City Club meetings, even if you can't get there!

The City Club luncheon program speakers and discussions are broadcast, in full, over three different stations at three different times:

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KOIN- (970 KC)      Each Friday at approximately 11:00 p.m.
KBPS (1450 KC)      Each Tuesday at 7:00 p.m.