3-27-1981

Portland Public Schools District No. 1 Levy (Multnomah County Measures 26-14 and 26-15)

City Club of Portland (Portland, Or.)

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REPORT ON
PORTLAND PUBLIC SCHOOLS DISTRICT NO. 1 LEVY
Multnomah County Measure 26-14
PART 'A' OF ONE YEAR LEVY MAINTAINING CHILDREN'S BASIC EDUCATION

Purpose: "The levy in Part 'A' will be combined with the proceeds of Part 'B' to provide general operating funds to educate approximately 52,025 Portland school children through the twelfth grade during school year 1981-82. Part 'A' provides $4,008,291 and Part 'B' provides $21,773,623 to meet the total projected budget deficit of $25,781,914. The money will be used for operating expenses such as books, supplies, heating, cleaning, building maintenance, classroom programs, and personnel."

Multnomah County Measure 26-15
PART 'B' OF ONE YEAR LEVY MAINTAINING CHILDREN'S BASIC EDUCATION

Purpose: "The levy in Part 'B' will provide the necessary funds in addition to the existing tax base and Part 'A' to meet the projected 1981-82 deficit for the education of Portland's children. Part 'B' represents $21,773,623 of the necessary levy funds and will be paid from property taxes without state financing. The money will be used for operating expenses such as books, supplies, heating, cleaning, building maintenance, classroom programs, and personnel."

To the Board of Governors,
City Club of Portland:

I. INTRODUCTION

In Measures 26-14 and 26-15, the Board of Education of School District No. 1, Multnomah County, Oregon, has submitted a two-part levy totalling $25.8 million, for voter approval on March 31, 1981. If passed, the levy would provide supplemental general operating funds for the district for the 1981-82 school year. Your Committee was charged to investigate the need for these supplemental funds and to recommend either passage or rejection of the Measures.

II. HISTORY AND BACKGROUND

School District No. 1 serves approximately 52,025 Portland children in grades kindergarten through 12. The proposed levies will supplement the district's general operating fund for the school year 1981-82. This fund pays for such operating expenses as teachers, staff, books, supplies, heating, cleaning, building maintenance, and classroom programs. It is not used for capital improvements.

District operating expenses have dramatically increased since 1968 when the last tax base increase was approved. For example, from then until the 1980-81 school year, district general fund expenditures grew from just under $60 million to about $135 million, due primarily to inflation and mandated programs. To some extent, these rising costs have been offset by increases in the State of Oregon's Basic School Support Fund.
The district has two principal sources of revenue: 1) local property taxes and 2) revenue from the state, primarily the Basic School Support Fund. By state law, the district's tax base (the amount of property taxes the district can levy without voter approval) can increase no more than 6 percent annually. Since 1968, district voters have rejected one tax base increase and three operating levies. (An eight-year capital improvement serial levy was approved in 1976; however, these funds may not be used for operating purposes.) In response to these levy failures, the district has made such cuts as reducing the number of teachers, shortening the school year and deferring pension contributions.

In 1981-82, property tax revenues, without the proposed Measures, will be approximately $92.7 million or 56.3 percent of the total projected district general fund budget. The remainder of the projected budget will come from miscellaneous revenues and the Basic School Support Fund. The latter, made up of income tax and other revenues distributed by the state, is anticipated to be $31 million or 18.9 percent of the total district general fund budget. Other revenues - including money from the Multnomah County Education Service District, from the district's beginning fund balance, and from other state funds - are expected to be $16.6 million or 10.1 percent of the total district general fund budget.

As demonstrated above, the projected revenues are anticipated to be only $140.3 million. The proposed budget totals $164.6 million. The difference, 14.8 percent of the proposed budget, constitutes the financial crisis facing the district. According to district officials, the $25.8 million combined levy amount would meet this $24.3 million shortfall and include a margin for discounts and delinquencies. If approved by the voters, the proposed levy would add a tax of $2.35 to each $1,000 of assessed property valuation. On a $40,000 home, it would increase the tax $94 for one year.

Of the total $25.8 million requested, $4 million qualifies for the state's property tax relief program and is presented as the 'A' ballot. The remaining $21.8 million is presented as the 'B' ballot and is not eligible for state relief. If passed, the 'B' ballot portion would be financed completely by local property taxpayers. Although the two ballots are voted on separately, they are not independent. The 'A' ballot may pass even if the 'B' ballot fails, but if the 'A' ballot fails, the 'B' ballot also fails automatically. (For a full discussion of the A-B ballot process, see Appendix A.)

III. DISTRICT RESPONSE TO 1979 CITY CLUB REPORT

On November 16, 1979, the City Club approved a "Report on Fiscal Affairs of Portland School District No. 1," (hereafter referred to as the "1979 City Club report"). This report was intended as a reference for future City Club reports. The following is an update of action taken by the district in response to the 1979 City Club report, which recommended several issues for consideration or action by the district. Your Committee believes it is germane to report the district's response to those recommendations.

1. Reappraisal of existing student teacher ratios. Testimony given to your Committee indicates that the district does not favor increases in the number of students per teacher, even though the 1979 City Club report estimated savings of $1 to 6 million could be achieved by increasing class size.
2. Annual funding of unfunded pension liabilities. The proposed Fiscal Year 1981-82 budget contains no additional pension funding. However, the district has accumulated $5.4 million against what was characterized in an October 13, 1980 Coopers & Lybrand report as an $81 million unfunded liability. At present, the district is considering funding the remaining liability with a bond issue. The 1979 City Club report recommended a $7.8 million annual contribution to fund this liability.

3. Aggressive pursuit of school closures and full-cost pricing to other users of school facilities. Two schools have been closed since publication of the 1979 City Club report. Those properties were turned over to the City of Portland without compensation. The fees charged to other agencies utilizing school facilities have been raised since publication of the 1979 City Club report. However, these fees do not reflect the full cost incurred by the district in providing the facilities. The 1979 report estimated that an aggressive school closure program could save $2 to 7 million annually.

A citizens committee, appointed by the district in late 1980, has been conducting a study of school closures. It was due to report its findings to the School Board in late March. District officials testified that the proposed budget contemplates closure of one high school and two or three elementary schools at an estimated savings of $1.3 million. According to preliminary indications, the citizens committee will recommend closure of two high schools and three elementary schools in the coming school year.

D. Study and implementation of contracting for custodial services. The 1979 City Club report estimated the district could save $1 to 4 million annually by contracting out custodial services. The district staff developed specifications and recommended a pilot program to contract for its custodial services. Your Committee received testimony that the School Board, in deference to custodian union pressure and a potential lawsuit, tabled the matter.

E. Development of a financial reporting system to produce meaningful cost accounting data. The District is implementing a new cost accounting system which is expected to begin operation on July 1, 1981.

F. Modification of the budget process to concentrate on program budgeting, as well as simplification of the budget document. Availability of the new accounting system will permit both program budgeting and a more straightforward budget document. District officials reported that the new budget format will be used in the Fiscal Year 1981-82 Annual Budget.

IV. ARGUMENTS ADVANCED IN FAVOR OF THE MEASURES

1. If the levy fails, the quality of education would be adversely affected by probable elimination of staff positions, increase in class size, elimination or reduction in the kindergarten program, reduction in maintenance, a lengthening of the school day, and a shortening of the school week.

2. It is not appropriate to cut financial support for Portland schools at a time when the city's children, like other children nationally, are suffering a decline in basic skills.
3. A levy is the only means available of meeting the district's current financial dilemma.

V. ARGUMENTS ADVANCED IN OPPOSITION TO THE MEASURES

1. The District could still cut some unnecessary expenditures from the budget and then return for another vote without affecting the educational program.
2. Class sizes could be increased without harming the educational program.
3. The district has too many administrators and teachers, and both groups are overpaid.
4. Property taxes are a regressive form of taxation and are already too high.

VI. DISCUSSION

Your Committee received testimony and documents from the school district; however, it was unable to locate any organized opposition to the levy. In fact, the arguments against the levy, cited above, were taken from comments school district officials said they have heard. The Committee's investigation was based upon the 1979 City Club report and testimony relating to the levy. (Appendix B lists persons interviewed, and Appendix C lists references consulted.)

District officials indicated to the Committee that the present financial crisis is the result of long-term economic stresses (such as inflation), as well as recent revenue cuts (principaliy in state Basic School Support). Inflation has increased the costs of payroll, utilities, operations, maintenance, and supplies. The district cites a 42 percent growth in the Portland Consumer Price Index since 1977 while the district's tax base grew only 18 percent. Personnel costs comprise 86 percent of the total district budget. The present budget assumes a 12 percent pay increase for all personnel, but teachers are currently negotiating for a larger percentage of income increases.

The recent reductions in revenues have been caused by events external to the district. Basic School Support will be reduced in 1981 due to the recent cutback in Federal Revenue sharing. It may be further reduced by the state legislature. The problem is made even more difficult because both the state and the federal government mandate certain programs which they do not fund sufficiently. For example, in the March 15, 1981 edition, The Oregonian reported, "Last year, the programs for more than 4,500 handicapped students cost $6.1 million and programs for about 1,450 limited English-speaking students cost $1.4 million. Despite the federal mandate to provide the special programs, federal and state funds combined paid for only 20 percent of the total cost of the programs."

At the same time, costs are increasing as more Southeast Asian children come into the program. This year the program serves 2800 students; next year it is expected to serve over 4,000.

Although the 1979 City Club report identified potential savings in district operations, it presented no evidence of excesses in the district's budget. Your Committee received no testimony which caused it to conclude differently. Your Committee notes further that the district
has cut nearly $9 million from its original proposed budget of $173 million.

If this levy is defeated, the school district will have to make additional cuts and return to the voters with an altered levy request, or it will have to make more drastic cuts than presently envisioned. While the district has prepared a list of 39 possible cuts and their fiscal impacts, totalling $24.2 million, it has not yet determined which cuts it would implement. The Committee does not feel adequately informed to comment on the educational impact of an increased student-teacher ratio, which is one major means of cutting costs. The proposed levy maintains the present student-teacher ratios which vary according to the type of school. Cuts in curriculum are likewise difficult to assess. State law and accreditation standards require areas of instruction beyond the "three Rs" and the district is not empowered to deviate from these requirements. The salary levels for both administrators and teachers were found by the 1979 City Club report to be reasonable and in line with comparable school districts. Costs per pupil were also found to be reasonable.

As a solution to the school district's short-term financial crisis, your Committee finds no financial alternative to a special property tax levy. The district is not legally authorized to levy any other type of tax or to charge fees, such as tuition. The sale of property would generate non-recurring revenues, and the amounts that could be derived are small in comparison to total budget needs. Further, it has been the past policy of the district to apply such sales revenues to capital needs rather than the general operating fund.

Your Committee cannot evaluate the need for the specific dollar levels requested in the levy Measures. However, it appears that the district was thorough in the method that it used to develop the budget. Several unknowns exist at this time: the level of teacher salary settlements, the level of Basic School Support, the level of federal support for mandated programs, and the general economic uncertainties that accompany any revenue and expenditure projections.

The school district appears to have estimated the likely outcome of these economic factors as closely as possible in order to determine the size of the levy request. However, these uncertainties are likely to recur yearly, and the levy is only a stop-gap solution to the district's financial plight. An increase in the present tax base would be more beneficial in the long run, especially since the state would offset up to 30 percent of the tax base levy. Until a tax base increase can be brought to election in May 1982 (at the earliest), a special levy seems to be the only feasible means of raising the needed operating revenue to get the district through the 1981-82 school year.

VII. CONCLUSION

School District No. 1 has a large and costly responsibility to carry out - one which is critical to Portland's future generations and the liveability of the city. In this context, the proposed levy raises a fundamental question: Should the school district continue to offer Portland children its present level of services? In the face of many factors it can't control - principally rising costs and lagging revenues - the district has managed for the past decade to cut and patch together
budgets that maintain service levels. But in the past few years, the gap between rising costs and revenue has increased to the extent that the district must have the proposed levy or it must reduce its present level of services in the 1981-1982 school year.

Even though it cannot calculate the precise impact of a reduction in present school services, your Committee believes such a reduction is unwise and potentially damaging. Therefore, it supports the levy package. However, it wishes to reinforce its conviction that the present levy is nothing more than a short-term solution to what is really a long-term fiscal problem. The district will continue to face its present problem every year unless it convinces the voters that an increase in the tax base is necessary.

VIII. RECOMMENDATION

Your Committee recommends the City Club support a "yes" vote on Measures 26-14 and 26-15 at the March 31, 1981 special election.

Respectfully submitted,

Nancy M. Ganong
Dennis Hartman
Anne Seiler Jarvis
Steven F. Matt
Miriam D. McClure
Harvey W. Rogers
W. David Sprayberry
Rebecca S. Marshall and
R. Scott Clements, Co-Chairpersons

Approved by the Research Board and the Board of Governors on March 12, 1981 for publication and distribution to the membership for discussion and action on March 27, 1981.
APPENDIX A
THE A-B BALLOT PROCESS

In 1979 the legislature enacted a new property tax relief plan, which became a permanent part of Oregon law upon its approval by the voters in 1980. Under this plan, the state will make a partial payment of the property taxes on all qualified owner-occupied homes. The payments are made directly to the counties, and the homeowners receive property tax bills in November showing up to 30 percent of their annual tax bills being paid by the state. The state will not, however, make any such partial payments for taxes levied to service bonded debt, to pay for capital construction, or for "mixed serial levies" (levies used to pay for both operating expenses and capital construction).

In order to limit growth in the state's liability for these payments and to restrict rapid growth in property taxes, the legislature placed a limit on the amount of new taxes eligible for this program. This limitation is called the "adjusted levy." The only property tax increases in excess of this "adjusted levy" eligible for state relief are increases in the tax base of the taxing authority.

In the case of School District No. 1, the "adjusted levy" is calculated by starting with the greater of either the past year's levy, or the average of the levies for the past three years, and subtracting levies for capital construction for payment of bonded debt, and mixed serial levies. This difference is then multiplied by inflation and population factors, which are based on the actual inflation and population increases experienced by the district in the year just past.

Tax levies within the amount of the "adjusted levy" are voted on as the 'A' ballot; levies outside that amount are voted on separately as the 'B' ballot. The two ballots may be submitted at different elections, but the 'B' ballot cannot be submitted until the voters first approve an 'A' ballot. Likewise, if the two are submitted at the same election and the 'A' ballot fails, the 'B' ballot, of necessity, also fails. Once the voters approve an 'A' ballot, the district cannot submit the 'B' ballot again more than twice. Only two regular election days remain between March 31 and July 15, the date by which the district must present to the County assessor the notice of its tax levy for the 1981-82 fiscal year. Since the district must know the amount of its total levy by then, those two remaining election days are the last two chances for the district to submit either an 'A' or a 'B' ballot, should either or both fail on March 31.
APPENDIX B
PERSONS INTERVIEWED

George Collins, Director of Finance, Portland Public Schools
Gordon Ranta, Chairman, Citizens Budget Review Committee No. 3, Portland Public Schools
Pam Hulse, Committee for Portland's Children (campaign committee in support of the levy)
William Scott, School Board member; Chairman, Committee for Portland's Children
Forrest N. Rieke, School Board Chairman
James Fenwick, Superintendent, Portland Public Schools
David W. Tyler, Comptroller, Portland Public Schools
Vera Katz, State Representative
Clyde Brummel, Oregon Taxpayers Union
Ray Phillips, Oregon Taxpayers Union

APPENDIX C
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