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SCHOOL FINANCE PROPOSALS DESIGNED  
TO AVERT SCHOOL CLOSURES

From time to time in Oregon's history, some school districts have closed or faced the imminent danger of closing due to lack of funds. This situation can be directly attributed to the interaction of two factors: (1) heavy reliance on the property tax for most school funding and (2) the tax base limits contained in Article XI, section 11 of the Oregon Constitution. Thus proposed solutions to the school closure problem invariably involve alternative revenue sources, the tax base limits, or both.

This report summarizes these proposed solutions in two main categories--(1) statutory changes that try to make the current tax base system work better and (2) constitutional changes and major revenue source shifts.

One point to keep in mind as we review the history of this issue is that the property tax is a budget balancing tool of schools and other levels of local government. The property tax levy makes up the difference between the desired expenditure level\* and non-property tax revenues. Whereas other local governments such as cities and counties may impose other taxes and fees, schools are limited to the property tax. Hence for schools, the only variables they have to work with are the levy and the budget. The non-property tax revenues such as State basic school support and timber revenues are given and may fluctuate from year to year. This places school districts in the particularly difficult position of at times requesting significant changes in their property tax levy when the budgeted expenditures remain virtually unchanged.

\*In some cases this may be reversed with the expected level of property tax levy dictating the "desired" expenditure level.

## STATUTORY CHANGES

The ability of the Legislature to prevent school closures without amending the constitution is limited. If a school district does not have a tax base that allows it to operate at some minimally acceptable level, then the potential always exists that levy failures could close the schools. Past Legislatures have taken steps to make it less likely that a district could find itself facing closures. This section summarizes five of these attempts:

1. Changing ballot language;
2. allowing for special elections outside the normal election dates;
3. rate based serial levies;
4. requiring tax base elections; and
5. the A-B ballot system.

### Ballot Language Changes

The Legislature has changed the required content of measure explanations for levy elections at almost every session over the last 15 years. In making these changes, the Legislature has attempted to walk the fine line between informing and confusing the voter.

The concern is that a confused voter will vote no, or not vote at all. But people differ on the solution. Some argue that no ballot statement can ever adequately inform voters of the issues in a levy election. So they favor a very limited statement of the question to encourage voters and the district to expose the issues prior to the election. Others argue that, regardless of district efforts, many voters will arrive at the polls with inadequate information. They argue for more information. In any case, it is clear that ballot language changes by themselves will not eliminate school closures.

### Special Election

One fall-back provision in current law (ORS 255.355) allows a school district to hold a levy election outside the normal six tax election dates if a school closure will occur before the next tax election date and the levy request does not exceed the last defeated request. This provision gives the district another chance. It does not, of course, mean the levy will pass.

### Rate-Based Serial Levies

One idea for reform of the 6% limit that surfaced during the 1970's was to convert the tax base limit into a rate base limit-- i.e., allow a levy without a vote of the people up to a fixed rate instead of a fixed dollar amount. The approach has some desirable traits, like allowing greater increases in growing areas. But the rapid growth of property values during the period would have meant large levy increases without a vote of the people. Finally, the 1977 Legislature provided for voter-approved serial levies of up to three years for operation outside the tax base. This authority has been rarely used.

### Requiring Tax Base Elections

The 1977 Legislature required all school districts that levy outside their tax base in an odd-numbered year to seek a new tax base in the next even-numbered year. The Proposition 13 "tax revolt" caused the 1978 special session to temporarily postpone this requirement. But it finally took effect in 1980 and, in combination with the A-B ballot, served to increase the number of school districts that operate within their tax base from about 30 in 1978-79 to 171 in 1985-86.

### A-B Ballot

The 1979 Legislature adopted the A-B ballot system as part of a major property tax relief program. The A-B ballot was designed in part to avert school closures. This was accomplished in two ways.

First, the measure required the splitting of a levy request into two parts: the "A" ballot--the operating levy in a base year plus an allowance for growth; and the "B" ballot--any levy in excess of the "A" ballot. The idea was to give voters the option of approving the "A," but not the "B." In most cases the "A" levy would be enough to avoid closures.

Second, the measure did not pay homeowner tax relief on "B" levies, but did pay relief on "A" levies and on all tax bases. This gave an incentive for voters to approve new tax bases rather than "B" levies.

The A-B ballot was in some ways too successful at achieving its objectives. The number of new tax bases was already mentioned above. In addition, property tax levies leapt ahead, increasing by 17.5% in 1980 and 20.5% in 1981. These increases combined with the recession made it impossible for the Legislature to continue paying property tax relief at the level envisioned in 1979, and, in turn, rekindled the property tax revolt and the threat of school closures.

## CONSTITUTIONAL AND MAJOR REVENUE MEASURES

Efforts to permanently avoid school closures must devise a major alternative revenue source, or somehow deal with the tax base limits (Article XI, Section 11) in the Oregon Constitution. Some have attempted both. This section summarizes eight of these proposals:

1. The 1969 sales tax;
2. the McCall Plan (1973);
3. the "two-tiered" plan (1974);
4. updated tax base proposals;
5. the safety net;
6. various "sink-or-swim" proposals,
7. the 1983 sales tax.
8. the 1985 sales tax.

### The 1969 Sales Tax

The 1969 Legislature referred to the people a 3% tax on retail sales of tangible personal property. Exemptions were provided for food, drugs, and other items. The measure also increased the corporate excise tax rate from 6% to 8% (7% to 9% for financial corporations). The revenue from both was dedicated to property tax relief.

In addition, the measure established new tax bases for schools equal to the prior year's operating budget plus 5%, with school support offset against the base. Finally, the measure proposed a low-income (less than \$3500) homeowner and renter relief program and a tax freeze for senior citizens with homes worth less than \$20,000.

Of the above provisions, only the 3% sales tax rate, the dedication to property tax relief, and the new school tax bases were constitutional.

The measure failed 65,007 to 504,274.

### The McCall Plan

The McCall Plan was a fundamental change in Oregon's tax and school support systems. The major changes were:

1. A personal income tax rate increase of about 30% (top rate 13%);
2. a \$2000 limit on the federal tax deduction;
3. a graduated corporate excise tax (from a 6% flat rate to a range of 4-9%),
4. a graduated business profits tax (top rate 2%) on both corporate and noncorporate business;
5. elimination of property taxes on business inventory;
6. an absolute \$2 per \$1000 limit on school property tax levies, not counting bonds, capital outlay, and transportation costs;
7. a \$7.50 per \$1000 statewide tax on business property; and
8. a complete restructuring of school support distribution that amounted to 90% state support with extensive equalization.

The measure failed 253,682 to 358,210.

### The "Two-Tiered" Plan

After the McCall plan defeat, the 1973 Legislature referred two new proposals. The first constitutionally established new tax bases for schools equal to the prior year's operating budget plus 5-1/2%, with school support statutorily offset against the base. Voters could not approve levies outside the base, but could increase the base. The measure failed 166,363 to 371,897.

The second was entirely in statute. It increased personal income tax rates to a top rate of 11%, limited the federal tax deduction to \$3000, graduated the corporate excise tax rates like the McCall plan, and eliminated the corporate offset for personal property taxes. Revenues went to increase basic school support through a new distribution formula that would raise State support from 30% to 43% of operating expenditures and increase equalization under a "two-tiered" system. This measure also failed 136,851 to 410,733.

### Updated Tax Bases

Two updated base proposals--part of the 1969 sales tax and a separate measure with the "two-tiered" plan in 1974-- have already been mentioned. Besides those two, the Oregon Education Association by petition put a plan on the 1970 November ballot. It updated school tax bases to the prior year's budget plus 6%, with school support constitutionally offset against the new base. Levies outside the base were not permitted, but the base could be increased at two elections per year. The measure failed 223,735 to 405,437.

In summary, three updated base proposals failed in seven years. Nonetheless, the 1975 reports of the newly formed Legislative Revenue Office contain analyses of a number of updated base proposals, most with no growth or even a decline from last years approved levy. None of these made the ballot.

#### Safety Net

The 1977 Legislature put a "safety net" proposal on the ballot. It allowed a school district to levy last year's operating levy plus 6% if two levy elections failed, except that the allowed levy could not be greater than a defeated levy. The measure lost 112,570 to 252,061.

#### Sink-or-Swim

It is a bit ironic to call these "school closure" plans, but the thrust of all of them has been to dramatically reduce school property taxes without providing an alternative revenue source. Assuming the system survived the short term, these proposals could eventually force a more stable funding source for schools.

This category includes a 1972 Oregon Farm Bureau initiative that banned the use of property taxes for school operating costs. No alternative revenue source was provided. The measure failed 342,885 to 558,136.

Similar in effect, though not directed specifically at schools, were the various 1% or 1-1/2% property tax rate limit proposals. For the record, the dates and votes were:

1968	276,451 to 503,443
1978	424,029 to 453,741
1980	412,781 to 722,089
1982	504,836 to 515,626
1984	599,424 to 616,252

#### The 1983 Sales Tax

After a "Perils of Pauline" melodrama spanning a regular session, a special session, and a local government ratification process, the heroine perished a few scenes before the final credits when the Oregon Supreme Court declared the ratification process unconstitutional and ordered the measure removed from the ballot. The 1983 session also saw other plans with the same goal, including a sales tax directed specifically to schools and an income tax funded homestead relief program.



### The 1985 Sales Tax

The 1985 Legislature avenged the 1983 tax proposal's demise by sending directly to the voters a 5% retail sales tax. Revenues were constitutionally dedicated to schools -- 85% to reduce school property taxes and 15% to reduce income taxes that go to fund Basic School Support. Other constitutional provisions were:

- 1) Tax bases established for all schools, reduced by the amount of sales tax going to each district. Maximum school tax base growth to be limited to 3% per year,
- 2) School levies outside the tax base allowed only under certain circumstances.
- 3) A State spending limit based on personal income growth.
- 4) Exemption of food, medicine, and other necessities from the tax.

A special election was held in September, 1985. The measure was defeated - 183,307 to 643,022.

### Summary

The Legislature has repeatedly sent constitutional amendments to the voters in an effort to provide a more stable system of local school finance. The voters have consistently rejected these proposals. Fears of diminished local control or excessive increases in taxation and school expenditures have fueled voter resistance to many of these measures.

The voters have also consistently rejected (by generally slimmer margins) the "sink or swim" proposals mentioned earlier.

Consequently, the Legislature has made statutory modifications to ameliorate but not eliminate the continuing threat of school closures.