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STATE OF OREGON  
**LEGISLATIVE REVENUE OFFICE**

200 PUBLIC SERVICE BUILDING  
SALEM, OREGON 97310

LEGISLATIVE REVENUE OFFICER  
RICHARD A. MUNN  
AREA CODE 303  
378-8873

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REP. WALLY PRIESTLEY  
REP. GEORGE STARR  
REP. TONY VAN VLIET  
REP. PAUL WALDEN

December 15, 1975

Dear Legislator:

Attached is a research report on the historical role state government has played in financing local schools in Oregon. Hopefully, it can be of some assistance towards weighing any current issues in local school finance.

Sincerely,

Terry W. Drake  
Economist

SV

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RESEARCH REPORT  
R-I No. 61-75  
October 31, 1975

OREGON'S STATE SUPPORT OF LOCAL SCHOOLS, IN RETROSPECT<sup>1</sup>

The genesis of state support for local school districts dates as far back as the inception of Oregon's statehood in 1859.<sup>2</sup> The original State Constitution provided for the establishment of a Common School Fund.

This fund consisted of revenues received from: direct education bequests, the sale of lands given to the state by the federal government, and certain other miscellaneous revenues. The Constitution provided that the fund:

" . . . shall be set apart as a separate, and irreducible fund to be called the common school fund, the interest of which together with all other revenues derived from the school lands mentioned in this section shall be exclusively applied to the support, and maintenance of common schools in each school district, . . ."

School districts at this time were dependent on two other revenue sources:

1. the county school fund, which consisted of property taxes levied and distributed within the counties;
2. local district property tax levies.

These aforementioned three sources were the major basis of local school funding through 1920. However, their relative importance changed dramatically as shown in the following table.

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<sup>1</sup>This report is in no small part dependent on the information contained in an Oregon School Study Council publication of 1963 entitled, "History of School Finance in Oregon" authored by Thomas Rigby.

<sup>2</sup>At that time, local school districts had been in operation for some ten years under territorial authorization.

TABLE 1

Percent of Major Public School Revenues From:

<u>Year</u>	1) <u>County School Fund</u>	2) <u>Local District Taxes</u>	3) <u>Common School Fund</u>	<u>Misc. Other Revenues</u>
1890	38.7%	21.6%	14.2%	25.5%
1900	47.5	23.1	11.8	17.6
1910	33.1	58.8	8.0	.1
1920	17.7	49.5	3.4	29.4

As one may observe from the table, state support of local schools through the Common School Fund had become of diminutive import by 1920. This trend toward the dominance of local property tax revenues as a source of school finance continued through 1942. For example, by the school year 1939-40, the revenues from local and county property taxes had risen to 97% of total, local school revenues.

In review of this first era, from 1859 to 1942, one can perceive two dominant trends in local school finance:

1. a diminishing presence of state support of local schools;
2. an increasing dependency of local district property taxes relative to both county and state revenues.

In 1942, an initiative by the Oregon Education Association creating a state school support fund ushered in a new era of local school finance.<sup>1</sup>

The measure provided that all income tax receipts above \$7,750,000 be distributed to the individual school districts in proportion to the number of students in public elementary high schools. The 1943 Legislature amended the initiative and appropriated \$5 million each for fiscal years 1943-44 and 1944-45 to be distributed to local schools from income tax revenues. The amount received by each school district was intended to reduce the dependency on local ad valorem property taxes.

Thus began a move towards direct state support of local schools with revenues raised for the most part from Oregon individual income taxes.

The appropriation to the State School Support Fund was

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<sup>1</sup>The measure was adopted at an election held November 3, 1942.

increased to \$8 million each for the next two years (1945-46 and 1946-47) along with a small change in the distribution formula.

Possibly the most significant change in this recent chronology took place in 1946 with an initiative creating the Basic School Support Fund. Said initiative was approved by a slim margin at the 1946 November elections. This measure replaced the State School Support Fund and contained the following provisions:

1. a state property tax levy to produce \$50 per school child;
2. an offset of the state property tax by income tax revenues;
3. the distribution of basic school support as revenue as opposed to a levy offset;
4. a statement as to the goals of the measure:

". . .the fund to be distributed annually in a manner provided by law to *equalize*<sup>1</sup> educational opportunities and conserve and improve the standards of public elementary and secondary education throughout the state."

In 1947, the legislature appropriated \$15,946,000 to the newly formed fund and provided that the bulk of the revenues be distributed through the following programs:

	<u>Distribution Basis</u>	<u>Approximate % of Fund</u>
1. Transportation Aid	Mileage	8
2. Flat Grants	Per Student	75
3. Equalization	Negative Function of Per Student Property Wealth	17

As the discussion will now progress through the changes in the Basic School Support Fund, one may wish to refer from time to time to Table 2, which imparts the aggregate impact of these changes.

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<sup>1</sup>Emphasis added.

BASIC SCHOOL SUPPORT, 1947 - 1975

<u>School Year</u>	<u>Current School Operating Expenditures* (\$1,000)</u>	<u>% Increase</u>	<u>Amount Appropriated For BSSF** (\$1,000)</u>	<u>% Increase</u>	<u>BSSF as a Percent of Current Expenditures</u>	<u>Biennium</u>	<u>Biennial Gen. Fund Expenditures (in \$1,000)</u>	<u>BSSF as a % of Biennial Gen. Fund Exp.</u>
1947-48	\$ 43,513	-	\$ 15,946	-	36.6%			
1948-49	51,800	19.0%	16,954	6.3%	32.7	1947-49	\$ 77,897	42.2%
1949-50	58,799	13.5	17,349	2.3	29.5			
1950-51	63,213	7.5	18,305	5.5	29.0	1949-51	133,422	26.7
1951-52	72,330	14.4	29,281	60.0	40.5			
1952-53	78,720	8.8	30,683	4.8	39.0	1951-53	171,872	34.9
1953-54	87,691	11.4	32,134	4.7	36.6			
1954-55	94,844	8.2	33,245	3.5	35.1	1953-55	189,661	34.5
1955-56	102,336	7.9	34,809	4.7	34.0			
1956-57	114,016	11.4	36,018	3.5	31.6	1955-57	218,766	32.4
1957-58	122,597	7.5	44,578	23.8	36.4			
1958-59	134,054	9.3	45,514	2.1	34.0	1957-59	278,747	32.3
1959-60	152,022	13.4	51,937	14.1	34.2			
1960-61	161,451	6.2	54,351	4.6	33.7	1959-61	306,657	34.7
1961-62	177,526	10.0	61,038	12.3	34.4			
1962-63	190,419	7.3	64,657	5.9	34.0	1961-63	355,546	35.4
1963-64	208,685	9.6	65,184	.8	31.2			
1964-65	220,225	5.5	61,167	- 6.2	27.8	1963-65	368,179	34.3
1965-66	239,193	8.6	72,088	17.8	30.1			
1966-67	262,428	9.7	75,898	5.3	28.9	1965-67	490,273	30.6
1967-68	286,729	9.3	77,786	2.5	27.1			
1968-69	325,536	13.5	77,431	- .5	23.8	1967-69	567,470	27.4
1969-70	363,633	11.7	88,928	14.8	24.4			
1970-71	398,013	9.5	88,028	0.0	22.3	1969-71	710,827	24.9
1971-72	421,635	5.9	99,428	11.8	23.6			
1972-73	459,210	8.9	104,063	4.7	22.7	1971-73	768,797	26.5
1973-74	505,138	10.0	143,520	37.9	28.4			
1974-75	591,327	17.1	170,708	18.9	28.9	1973-75	1,039,773 (Est)	30.2
		<u>Average Increase</u>		<u>Average Increase</u>				
		10.2%		9.4%				

\* Source: Oregon Department of Education  
Expenditures for all pupils except 1967-69 when current expenditure for resident pupils only was used.

\*\* Source: Oregon Department of Education

It is important to note at the outset the legislative formulization of distributing the equalization portion of Basic. In 1947, equalization funds were distributed in an amount equal to the difference between the cost of a Basic program<sup>1</sup> and a district tax which, combined with the levy for the county school fund, would equal 7 mills (\$7/\$1,000) of true cash value.<sup>2</sup> For purposes of exposition, the equalization formula was basically:

$$(\text{Number of students} \times 75\text{¢}) - .007 \times \text{Property Value} = \text{Equalization}$$

Note that over time (without changing the formula) there were but two variables which affect the amount of equalization a district received:

1. number of students  
(as the number of students increased, equalization increased);
2. property value  
(as property value increased, equalization decreased).

This relationship was to prove the nemesis of equalization for the next ten years. In retrospect, the impact of this formulization over time is relatively obvious. If the percent increase in property value is greater than the percent increase in students, equalization will decrease--which is exactly what happened. Keep this in mind as we trace the development from 1947 to 1957.

In 1949, the legislature made some small changes in the transportation program and submitted to the voters a program to significantly increase the total basic school support appropriation. The voters approved the increase in November 1950, and the increase went into effect for the 1951-52 school year.<sup>3</sup>

The 1951 Legislature revised the formula for distribution to impart the increased appropriation via increased flat grants and increased equalization. The equalization formula remained basically the same except for increases in the Basic program (to \$1.15 per resident party member) and the millage levy (to 12 mills of True Cash Value). Hence, the new formula was basically as follows:

$$(1.15 \times \text{students}) - (.0012 \times \text{Property Value}) = \$ \text{Equalization}$$

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<sup>1</sup>Defined at this time as 75¢ per resident daily member of \$2,100 per teacher, whichever was greater.

<sup>2</sup>Certain grants in aid and county shall fund revenue were also included in this calculation.

<sup>3</sup>See Table 2.

It is important to note that even with the new equalization formula for increased basic school support, the share going towards equalization for 1951-52 dropped to approximately 12% of the total fund.

No significant changes were made to Basic School Support in 1953 and 1955. However, 1957 produced a major reorganization of Basic School Support. Bear in mind that some dramatic shifts in the distribution of flat grants and equalization had occurred up to this time. While transportation aid had remained relatively constant as a percent, equalization had decreased to approximately 3% of the total appropriation for Basic School Support.

Following is a list of the revisions enacted by the 1957 Legislature.

1. A number of special programs were added under the auspices of Basic School Support, e.g.,
  - (1) handicapped children,
  - (2) community colleges,
  - (3) able and gifted children,
  - (4) curriculum improvement.
2. Students in high school were weighted at a rate equal to 1.3 times students in grades 1 through 8.
3. Basic School Support was recognized as a reimbursement program;\* thus, 3.3% of basic funds were set aside for growth allotments.
4. The previous system of distributing equalization (which has caused the precipitous decline in equalization funds) was scrapped and replaced with a proportional split of 80% flat grants and 20% equalization (after subtracting out transportation and growth apportionments). Furthermore, a foundation program was established defining an equalization level of \$230 per Average Daily Membership--weighted at 1.3 for high school students. This foundation program provided an internal cost escalator which increased the foundation program in proportion to the average cost increase in first class districts.\*\*

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\*Since BSS funds are distributed on a basis of previous year enrollment data, it was felt that this discriminated against growing school districts.

\*\*A first class district is any district with 1,000 or more students.

These four revisions produced the formula which has, for the most part, survived intact to the present. No significant changes were made in 1959 and 1961 beyond increasing appropriations to Basic.

In 1963, the legislature directed itself towards the elimination of special programs from Basic School Support. Those programs which survived were shifted to the budgets of either the State Department of Education or the General Fund. Also, the reimbursement for transportation was changed to equal 50% of district cost.

Again in 1965, the transportation formula was altered to pay each district 60% of its transportation cost of two years prior.

No significant changes were instituted in 1967.

Two minor changes were brought about in 1969:

1. the allocation for growth was decreased to 2.5%;
2. flat grants were increased to 81.5% with a corresponding decrease in equalization to 18.5%.

The 1971 Legislature sought to further limit the amount going toward equalization. This was accomplished by freezing the amount of equalization to the dollar amount distributed in the 1970-71 school year.

In 1973 -- no doubt due in part to the Creswell Case on equal educational opportunity -- the legislature restored the 20% and 80% division between equalization and flat grants, respectively. Further, the legislature added two new programs under Basic:

1. provisions for kindergarten aid,
2. grants for districts with declining enrollment.

The rationale for declining enrollment grants recognized that costs of educational services did not decrease in amounts equivalent to a decline in enrollment.

The 1975 Legislature significantly increased the appropriation to Basic. No changes were made in the distribution of funds.

### Summary

State support of local schools began as early as statehood itself. As local district property taxes became the dominant means of finance for local schools at the turn of the century, state support dropped to a miniscule proportion. The move away from property taxes onto income taxes as a revenue source for state government in the 1930's provided a tax base productive enough to reverse the trend.



In the early 1940's, at the initiative of the populace, state support again became a significant source of local school revenues. This trend was accelerated by the initiation of Basic School Support in 1946. This program not only made the state a major source of local school revenues, but also carried within it an equalization program to partially compensate for the wide variation in property wealth between local school districts.

Although many changes have ensued in the basic program over the last 28 years, the impact of its distribution to local schools is, for the most part, the same as at its inception in 1947-48.