

Confederation of Oregon School Administrators ←

Chuck Bennett

Testimony for 3/21/14

Good afternoon Mr. Chair and task force members. I appreciate the opportunity to speak to you today in behalf of the 2,300 education leaders belonging to the Confederation of Oregon School Administrators.

The issue today is the state's nearly 20-year-old school funding formula and whether it needs adjustments or a wholesale overhaul.

Put simply, COSA would oppose major changes to the funding formula. As it has in the past, COSA will work with legislators and others who have identified changes in Oregon's student population and that a clear need exists to make changes that would improve the equitable distribution of funds. Remember, these funds are the basic resources allocated to each district to allow local boards to meet the state's constitutional mandate that "The Legislative Assembly shall provide by law for the establishment of a uniform, and general system of Common schools."

There have been many attempts over the years to make the kind of wholesale change from a distribution to a funding formula, as we see recommended in some of the testimony today, the Legislature has successfully resisted this major state policy shift. The result has been that unlike many other states, Oregon has not faced ongoing lawsuits alleging unfair or unequal distribution of funds. At its core the formula aims at giving each district approximately the same amount of funds for each student. At the same, the formula recognized there are some broad factors that would result in cost differentials among student populations including poverty, English language facility, medical or physical needs and others. These are the weights added to the basic per student amount. While these broad categories reflect cost differentials among students, it in no way has been used to instruct local boards on expenditures. It attempts to set basic resources for a district's collection of children waiting at the school door.

What's most important to understand is that changes aimed at requiring certain patterns of spending generally don't move money around among school districts. Instead, they give control over local budgets developed by locally elected school boards to either the state or to specific interests. Virtually any argument you will hear on changing the weights for this or that group of students and requiring the money to spent on those students takes on budgeting and policy responsibility delegated to locally elected school boards

It's like state revenues that come to the General Fund. Mr. Chair, based on the total revenue, you and your committee make decisions on how to divide the money among the many, many worthy state programs needing funding. In the same way, school superintendents, business officials and boards receive a total state grant and then proceed through a strenuous budget process to meet student and community needs and expectations. Increasingly, by the way, those decisions are affected by state and federal mandates. But, that's a discussion for another forum.

You will hear from a variety of groups or organizations interested in seeing funding directed to their individual programs. First, all are worthy and represent the highest aspirations of those they represent or serve. But, they are proposing use of the wrong vehicle to accomplish their goals. The funding formula is a distribution formula aimed at equitable division of nearly \$7 billion aimed at providing 70% of the funding for local school districts.

I have included with my testimony a series of documents prepared by our former Executive Director Ozzie Rose, who you heard from at one of you first meetings. I thought it was important that you receive again a copy of the "Funding Formula History from 1975 to 2003" and copies of a series of legislative reviews Ozzie authored from 1985 to 1991. This is the period the legislature responded to property tax law changes and the system of local school finance shifted from 70% being locally generated to the current 70% coming from state income taxes.

If you take the time to read them, you will find a full discussion of the decisions that created our School Funding Formula.

Finally, I want to comment on proposals that would require specific spending of state school funds on certain groups of students. The issue that has faced school funding policy has not been the fairness of the distribution system devised in the late '80' and early '90's. Rather, the issue facing education in Oregon and had an impact on specific spending amounts at the local level on individuals or groups of students has been the adequacy of the total funding available to meet the needs of all students. That really is and has been the elephant in the room as folks try to gain advantage by tinkering with the formula. This would not be a topic if the legislature provided adequate state funding for education.

I will say though, that there are a couple of exceptions I think are worth looking at by this task force:

- Review a permanent adjustment that provides additional funding for students attending small, remote school districts.
- Review a change in funding for the High Cost Disabilities Fund with a system embedded in the distribution formula.

Thank you for the opportunity to address the task force.

## **FUNDING FORMULA HISTORY**

### **1975 – 2003**

**1975:** Increased state support for elementary/secondary education to 30%. Reviewed Ford Foundation Study Grant report recommending substantial changes to the existing approach to funding schools. However, after consideration by the Senate Revenue Committee and the Circuit Court's ruling on the Creswell case that Oregon's system for funding public education was not unconstitutional legislators dropped any attempt to make substantial changes in school funding. Established a Task Force to study funding and delivery of special education services for children not in regular programs in their resident district. Modified the local district reimbursement formula to provide state support for 30% of special education costs approved by the State Superintendent.

**1977:** 34% State Support for K – 12 in 1977-78  
40% State Support for K – 12 in 1978-79  
Greater emphasis on equalizing property tax efforts between districts

**1979:** Modified process for establishing the state appropriation for K-12 education by setting the ADM (\$849.60) and the pre pupil current operating expenditure (\$1913) for 1979-80 in the statute rather than using a percentage of the actual school district current operating expenditures. For future appropriations these figures would be adjusted by 9% per year or the increase in the Portland CPI, whichever is less. Changed the small school correction to provide increased state school support for small school districts with very high tax rates.

**1981:** 33.5% State Support for K- 12  
After transportation funded – Balance of State Support split  
70% to Basic Grant 30% to Equalization

Grand-in-Aid  
Portland Disadvantaged Child Fund  
TAG  
Child Development Specialist  
National School Lunch  
Vocational Ed  
Student Driver Training  
Compensatory Education

**1983:** No Formula Related Bills

**1985:** Balanced Tax Proposal (HJR 4) referred to September election (Failed). Passed the Basic Education Act (HB2943.) High Cost – Low Incident Handicapped Child Fund Established.

**1987:** Safety Net referred to voters and approved at May Primary election. Prohibited school closures in school districts operating within their tax base.

Governor's Commission on School Funding Reform created to:

- (1) Identify options that will reduce substantially the reliance on local property taxes for funding K-12 education;
- (2) Identify options that will provide a stable, consistent and adequate funding system for elementary and secondary education;
- (3) Identify options for distributing state aid to school districts that will promote equal educational opportunities for students and greater equity for taxpayers.

**1989:** Approved incentive for UH & Elementary Districts to unify – Basic Allocation Increase of 15% for first year after unification; 10% for second year 5% for third year.

Referred a Measure to people in May to establish updated tax base for all School districts. (Failed)

Created new Funding Formula – assuring all districts an annual increase in State support for each year of the Biennium; Established a targeted tax relief program for High tax rate/low spending school districts.

Directed Senate President and House Speaker to appoint a Joint Interim Committee on Revenue and School Finance: Primary function of the interim committee was to: (1) Develop alternatives to achieve taxpayer equity in funding primary and secondary education; (2) Develop alternative ways to replace all or a major portion of the property tax used to fund primary and secondary education; and (3) Undertake to develop an advisory ballot measure or measures dealing with school funding and issues related to school funding.

**1990: Ballot Measure Five approved.**

**1991:** Developed an ADMw based school funding formula for K-12 school districts, including a limit on a District's revenue increase or loss when implementing the new formula (Flat Funded – 25%). Specified that ESDs would receive 85% replacement of property taxes.

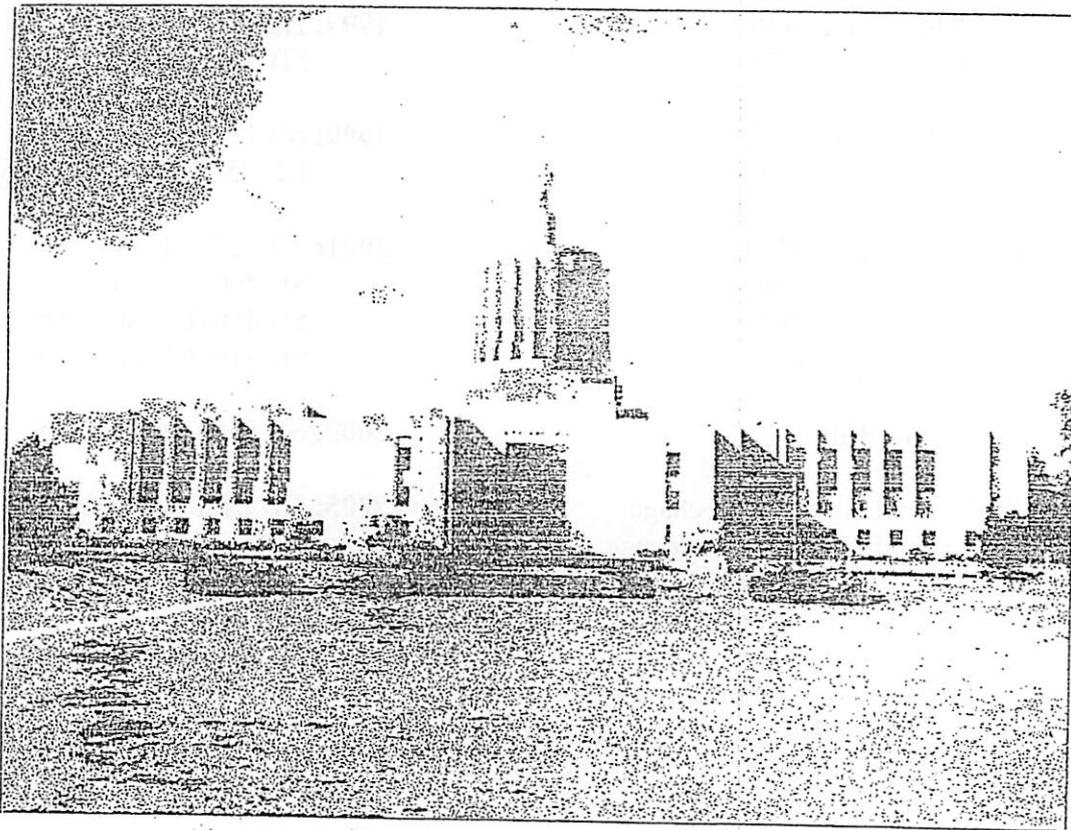
Required all UHS and Elementary Districts to Unify by 2006

- 1993:** 1993-94 State Appropriation & Property Tax less than in 1992-93 (First time in History.) ESD PT replacement level reduced to 71.3%. ESDs reduced from 29 to 18.
- 1995:** Stated intent to provide equal steps to achieve full equalization budgeted for 1994-95; noted the full equalization formula may need further adjustments to more accurately reflect unavoidable differences in costs facing local schools; and specified that individual school districts' uniqueness should be evaluated to determine if a cost of doing business factor should be included in the distribution formula beginning in 1997-98.
- 1997:** Continued phase-in of Funding Formula
- 1999:** Established new ESD equalization formula – phased in. Allocated \$800,000 to fund the out-of-state placement of students with disabilities. Modified the small, remote school factor. Allocated \$4 million for “urban enhancement” to school districts with more than 50,000 ADMw in the prior fiscal year.
- 2001:** Created an equalized funding distribution formula for education service districts. The 1999 Legislature started the ESD equalization process by specifying an increased funding amount per weighted student for ESDs that were below the state average. This action continued the process. Created the Small School District Supplement Fund. Required the Department of Education to study the relationship between small school size, cost and program needs.
- 2003:** Created new provisions and/or amended existing provisions of the Distribution Formula related to the following issues: High-Cost Disabilities Grant; Small High School Supplement Fund; Transportation Reimbursement; Local Option Property Taxes; Small School District Mergers; Diversion Agreements; Portland School District Gap Bond Tax Rate and Out-of-State Disability Fund. Created a 20-member Joint Interim Committee on Tax Reform to “study and make recommendations on improvements to the state’s tax system.”
- 2005:** Made the High-Cost Disabilities Grant and Small School District Supplement Fund permanent components of the State School Fund distribution formula. Created Facilities Grant. Reduced percent of State School Fund allocated to ESDs from 5.0% to 4.75%.
- 2007:** Modified the amount of school district local option taxes that are not considered local revenue for purposes of the State School Fund distribution formula. Increased amount transferred each fiscal year from State School Fund to High Cost Disabilities Account.

**FUNDING FORMULA BILLS**  
**1975 – 2007**

- |   |  |
|---|--|
| <b>1975:</b> SB 5514 (Chapter 444)<br><i>(see Budget Note)</i><br>SB 157 (Chapter 621)  | <b>1993:</b> SB 986 (Chapter 690)<br>HB 2066 (Chapter 329)   |
| <b>1977:</b> HB 5009 (Chapter 70)<br>HB 5059 (Chapter 712)<br>HB 3209 (Chapter 840)<br>HB 3156 (Chapter 879)  | <b>1995:</b> HB 2275 (Chapter 649)   |
| <b>1979:</b> SB 5509 (Chapter 277)<br>HB 2465 (Chapter 259)   | <b>1997:</b> HB 2192 (Chapter 821)<br>SB 355 (Chapter 804)   |
| <b>1981:</b> HB 2820 (Chapter 675)<br>HB 5074 (Chapter 729)<br>HB 2169 (Chapter 899)<br>HB 2184 (Chapter 678)   | <b>1999:</b> SB 123 (Chapter 186)<br>HB 2567 (Chapter 1066)  |
| <b>1983:</b> No Relevant Bills  | <b>2001:</b> SB 253 (Chapter 36)<br>SB 260 (Chapter 695)<br>SB 486 (Chapter 958)<br>SB 519 (Chapter 670) |
| <b>1985:</b> HJR 4 Balanced Tax Package<br>HB 2010 Implementing Language<br>HB 2192 Special Election Statute<br>HB 2493 Basic Education Act   | <b>2003:</b> SB 550 (Chapter 715)  |
| <b>1987:</b> SJR 3 Safety Net Constitutional Amendment<br>SB 278 (Chapter 16) Implementing Language<br>SB 687 (Chapter 823) Prohibits School Closures<br>in districts operating within a Tax Base | <b>2005:</b> HB 2450 (Chapter 803)<br>HB 3184 (Chapter 828)  |
| <b>1989:</b> HB 2132 (Chapter 968)<br>HB 2658 (Chapter 969)<br>HB 2137 (Chapter 971)<br>SB 42 (Chapter 1086)  | <b>2007:</b> HB 2641<br>SB 211<br>SB 550   |
| <b>1991:</b> SB 814 (Chapter 780)<br>SB 815 (Chapter 162)<br>SB 917 (Chapter 393)   |  |

# LEGISLATIVE REPORT 1985



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# I. Finance and Taxation

## A. Balanced Tax Proposal (Sales Tax Package) and the Basic Education Act

The Balanced Tax Proposal developed by the legislature is contained in four bills: HJR 4 (Constitutional Amendment); HB 2010 (Implementing Statute); HB 2192 (Special Election Statute); and HB 2236 (Statute to update and clarify HB 2010). In addition to these four bills, HB 2943 (Basic Education Act) was passed at the request of Governor Atiyeh as an integral part of the sales tax plan.

Because of the close relationship between the bills in the balanced tax package this section provides a summary of the major components of the tax package followed by a description of how the plan would be implemented. Therefore, there is no separate summary of each bill.

### The Balanced Tax Proposal (Sales Tax Package)

#### I. Major Components:

**RATE:** 5 percent (only on retail sale of tangible personal property).

**PROCEEDS:** Dedicated to elementary/secondary school districts and community colleges.

**MAJOR EXEMPTIONS:** Groceries, medicines, utilities, rents or mortgages, all services (medical, legal, etc.).

**OTHER EXEMPTIONS:** Limited list in enabling legislation.

**PROPERTY TAX RELIEF:** 35 percent statewide average reduction in property taxes; 32 percent minimum reduction.

**RESIDENTIAL RENTER RELIEF:** Equivalent to relief for homeowners.

**INCOME TAX RELIEF:** 9.7 percent (in addition to elimination of 8 percent surtax).

**LOW-INCOME REFUND:** Up to \$40 per person.

**LOCAL OPTION:** Prohibits local governments from enacting additional sales taxes.

**TIMBER SEVERANCE TAX RATE RELIEF:** Western Oregon reduced from 6.5 percent to 5

percent; Eastern Oregon from 5 percent to 3.8 percent.

**RETAILER COMPENSATION:** Set by law at 2 percent of collections.

**PROPERTY TAX LIMIT ON SCHOOLS AND COMMUNITY COLLEGES:** Establishes new property tax bases; limits tax base growth to 3 percent per year; allows vote on new property tax base once a year in May; allows one hold-harmless levy in September in cases where loss of other receipts would cause a district's operating budget or per student expenditures to drop below previous year.

**ELECTION LIMITS ON OTHER LOCAL GOVERNMENTS:** Cuts number of excess levy election dates allowed cities, counties and local districts from six to two, one in May and one in September. Allows additional elections for actual emergencies.

**STATE SPENDING LIMIT:** Limits increases in appropriations for state general operating expenditures to growth of personal income in Oregon. Up to 3 percent of excess revenues will be put in a "stabilization" fund. The balance will be used to cut personal income taxes.

**ELECTION DATE FOR THE PROPOSED PLAN:** September 17, 1985

**DATE SALES TAX COLLECTIONS BEGIN:** April 1, 1986.

#### 2. Distribution of Sales Tax to Schools:

The \$821 million in estimated net sales tax receipts would be available for school districts and community colleges in fiscal 1986-87. Of this amount, 15 percent (\$123 million) will be distributed to the Basic School Support Fund to replace income tax revenues lost due to the reductions explained in section 3. The \$698 million remaining for direct property tax relief will be distributed to community colleges (\$50 million) and elementary/secondary school districts (\$648 million). A portion (about \$5 million) of these funds will be used to offset the increase in property taxes caused by the reduction in the rate of the severance tax on timber. The balance will be distributed to school districts as a uniform percent of the district's net operating levy — approximately a 59 percent reduction for elementary/secondary school district property taxes. Some districts will receive a slightly higher reduction to assure that taxpayers in the largest value code area of a district receive at least a 32 percent reduction in their total tax bill. However, the reduction in the school tax levy cannot exceed 80 percent. Therefore, about five school districts will have less than a 32 percent total property tax reduction because the school levies are currently so low.

**3. Income Tax Reductions:**

The income tax relief portion of the package will result in a 9.7 percent reduction (in addition to elimination of 8 percent surtax) in Oregon's income tax. This reduction will be achieved by reducing the existing tax rates and raising the top bracket from \$10,000 to \$25,000.

**4. School Limitations:**

The balanced tax package will create new tax bases for all school districts, community college districts and community college service districts, and limit the automatic annual growth on those tax bases to 3 percent. Because ESDs do not receive any sales tax revenue, their tax bases will be allowed to continue to grow annually by 6 percent. (Note: the four rural ESDs — Grant, Harney, Wallowa and Wheeler — will have the same limits as elementary/secondary districts.) School districts and ESDs will be allowed to seek voter approval of new (increased) tax bases on the third Tuesday of May every year. In even-numbered years, this will be the statewide primary election date. School districts will be allowed to seek annual excess levy authority each year on the third Tuesday in September in an amount necessary to assure that the district's total operating budget, or the district's operating budget per pupil, is not lower than the prior year.

School district tax bases will increase automatically by the percentage growth in students caused by the addition of a kindergarten program in the district.

**5. Establishing New Tax Bases:**

If the Balanced Tax Proposal is approved, 1986-87 will be the first year of a two-year transition period that will result in all school districts

having new tax bases in 1988-89. The diagram below illustrates how tax bases will be established.

For computing taxing authority, local districts may choose a base year equal to their total taxes for operating purposes for 1985-86 or the average of their total taxes for operating purposes for 1984-85 and 1985-86.

In the first year, 1986-87, a district's tax base (taxing authority) will be equal to its base year taxes for operating purposes plus 6 percent minus the direct sales tax revenues received for 1986-87.

In the second year, 1987-88, a district's tax base (taxing authority) will be equal to its base year taxes for operating purposes plus 12 percent minus the direct sales tax revenues received for 1987-88.

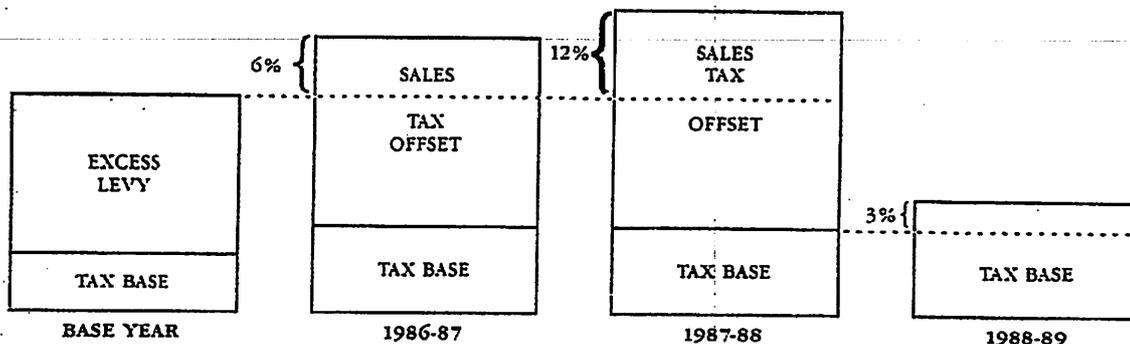
In 1988-89, a district's tax base for 1988-89 will be equal to its 1987-88 tax base plus 3 percent unless the voters approve a larger tax base on the May, 1988, election date. (Note: this will be the first opportunity to seek voter approval of a new tax base.)

The sales tax offset received by the district will be dictated by the distribution method outlined in section 2. During the transition, the amount of reduction in the tax base will be adjusted to reflect any increases or decreases in sales tax revenues caused by an increase or decrease in student enrollment. Tax bases also may be increased to reflect the addition of kindergarten programs after July 1, 1986.

**6. Serial Levies for Capital Expenditures:**

School districts may seek approval of serial levies for capital expenditures which will be in excess of the tax base for operating purposes. The definition of capital expenditures includes remodeling and major repair of buildings, and the acquisition of personal property with an expected life of more

Balanced Tax Proposal Establishes New Tax Bases for Schools



than five years and a purchase price of more than \$15,000 (e.g., school bus).

#### 7. Other Government Limitations:

City and county governments will not receive any direct revenue from the sales tax. Therefore, the only additional limitations on those units of government will be a reduction in the number of times they may seek approval of an excess levy from six to two, one in May and one in September.

The growth in the state budget will be limited to the rate of growth of personal income in the state. The appropriation for elementary/secondary schools and community colleges is not included in the state limitation. Thus when the state's revenues exceed its spending limit, the legislature will have to choose between increasing the appropriation for elementary/secondary schools and community colleges or providing additional income tax relief.

#### 8. Government Exemption from Sales Tax:

Purchases by state and local governments are exempt from sales tax. This exemption does not apply to capital construction projects because the contractors will pay sales tax on those taxed items in public improvement projects. Districts also will pay sales tax on purchases for construction projects carried out by their own employees. Purchases for normal maintenance and repair are exempt.

Other exemptions applying to school districts include: meals served to students by a public or private school, a school district or a parent-teacher association; newspapers and periodicals; telephone, heating and other utilities; and motor vehicle fuel.

#### 9. Property Assessment and Rate Limitation:

The balanced tax package returns all property assessment to a true cash value basis and repeals the rate limitation adopted in the 1983 Special Session (SB 792). The return to true cash value will occur beginning with the 1986 assessment year, under provisions of Chapter 613 (SB 274), whether this package is passed by the voters or not.

### The Basic Education Act

The Basic Education Act (HB2943) provides a link between the Balanced Tax Proposal and stabilizing public school funding in Oregon. There is no direct relationship between sales tax revenue and the bill's definition of basic education. However, the Basic Education Act only goes into effect if the balanced tax proposal is approved by voters.

The debate over the Basic Education Act revolved around the issue of state vs. local control, given the increase in state support for elementary/secondary education anticipated with the enactment of the sales tax. The Basic Education Act addresses the

question of balancing the *right* of the state to dictate educational policy with the *value* of locally run schools. While providing the foundation for maintaining local control of Oregon's schools, it also assures the state that a strong school system is serving the needs of all Oregon elementary/secondary school students.

#### The Basic Education Act of 1985:

1. Specifies that elementary/secondary students in Oregon's public schools shall be provided a basic education; that the primary focal point for providing education is the classroom; and that providing education is a shared responsibility of parents, the state, school boards, school administrators, teachers, students and the community. It further specifies that the state shall assume primary responsibility for funding basic education and may aid school districts in funding additional requirements.
2. Specifies that school districts are responsible for implementing basic education and requires school boards to involve students, parents, school board members, administrators, teachers and the community in the education process.
3. Defines basic education subject areas as language arts, mathematics, science, economics and social studies, health and physical education, music and art.
4. Requires the State Board of Education in conjunction with local school officials to:
  - a. define the common core curriculum goals;
  - b. develop a model core curriculum which describes the expected learner outcomes at selected grade levels;
  - c. acquire, prepare or approve tests which measure student achievement;
  - d. establish by rule test scores indicating satisfactory performance;
  - e. report publicly the results of achievement tests by releasing average scores for the state and for individual school districts for each grade level tested; and
  - f. develop model guidelines for use by school districts when reporting results of tests to parents or legal guardians.
5. Requires local school districts to annually administer approved tests to assess student performance in at least three grade levels. Such tests need not be uniform, but must permit valid comparison between districts.
6. Requires the State Board of Education to assure that technical assistance is available, if requested

by local districts, in the following areas: alignment of curriculum, measurement of student performance, teaching and effectiveness of curriculum, development of performance evaluation systems, staff development, selection and use of curriculum materials, school improvement, and increasing expectations of student achievement.

7. Instructs the State Board of Education to keep regulations and paperwork applicable to school districts at a minimum and to repeal rules or requirements not necessary for implementation of statutory policy.

## B. Education Appropriations

As was the case with the 1983 Legislature, the basic school support appropriation was not acted upon by the 1985 Legislature until the last day of the session. There was no public hearing on this largest single General Fund appropriation. The figure agreed upon among the "leadership" was not known until less than two hours before the legislative session adjourned. Once again, it appears that basic school support was the "budget-balancer," (i.e., no final decision was made on this major appropriation until the House and Senate had reached agreement on appropriations for property tax relief and all other agency operations).

The appropriation for basic school support is \$945 million for the 1985-87 biennium. This is \$1.8 million below Governor Atiyeh's recommended appropriation request. It represents a slight decrease in the share of school district approved program costs and current operating expenditures funded by state appropriations. The appropriated level is \$65 million greater than the 1983-85 biennium and represents a 7.38 percent increase. This is a substantially better percentage increase in basic school support than schools received in the last biennium. Nevertheless, some 120 school districts will get less basic school support in 1985-86 than they received in 1984-85.

The legislature did not look favorably on major initiatives to respond to the push for "excellence." Governor Atiyeh's request for \$3.2 million to fund the "Oregon Action Plan for Excellence" was pared to \$750,000 with all but \$41,000 of this amount taken from the Department of Education's "base budget."

New money was provided for expansion of regional programs for the handicapped, but it took a major battle to prevent local school districts from being saddled with "last dollar," or final, responsibility for all local district and state/regional special education programs. Reimbursement for school district-operated programs will continue at the cur-

rent 11 to 13 percent level. However, a special amount has been set aside to assist districts with extremely high cost, low incident handicapped children. Districts must apply to the State Superintendent of Public Instruction to receive assistance from this fund.

The funding pattern for special education programs was reorganized. Programs for the trainable mentally retarded (TMR) were added in the regional programs. Regional programs will now include autistic, blind, deaf, orthopedically impaired, blind and deaf, and TMR students. Funding from Mental Health Division and Children's Services Division budgets was transferred to the State Department of Education under this reorganization (HB 2058).

For a comprehensive comparison of appropriation changes between the 1983-85 and the 1985-87 biennia, see the table on page 21.

## Bill Summaries

Chapter 382 (HB 5009) is effective July 3, 1985. It increases the General Fund appropriation for Department of Education operations from \$10.3 million in 1983-85 to \$10.8 million in 1985-87, a 4.3 percent increase, and increases the limit on expenditures from federal funds for this same period from \$6.6 million to \$7.4 million, a 12.6 percent increase. It also authorizes increases in federally funded school lunch program expenditures from \$1 million to \$1.3 million. HB 5009 represents a reduction of \$2.7 million from Governor Atiyeh's budget recommendations. It provides a total increase of 8.8 percent for the next biennium for both the General Fund and federal fund appropriations.

The legislature also pared the Governor's \$3.2 million request to fund the "Oregon Action Plan for Excellence" to \$750,000, a \$2.4 million decrease. All but \$41,000 of this amount was carved out of the other appropriations within the State Department's "base budget." The department's total budget increase is 4.3 percent more than the prior biennium.

The budget report includes a budget note on the Action Plan which states that money is made available for the State Department of Education to continue development of curriculum in kindergarten through 8th grade programs and for some regional services and workshops for staff development in this area. It specifically states that "statewide testing is not authorized or funded in this budget." The Ways and Means Committee did recognize, however, that some test development would be expected, but only to the extent that it is "incidental to and needed for curriculum development, evaluation, and assessment."

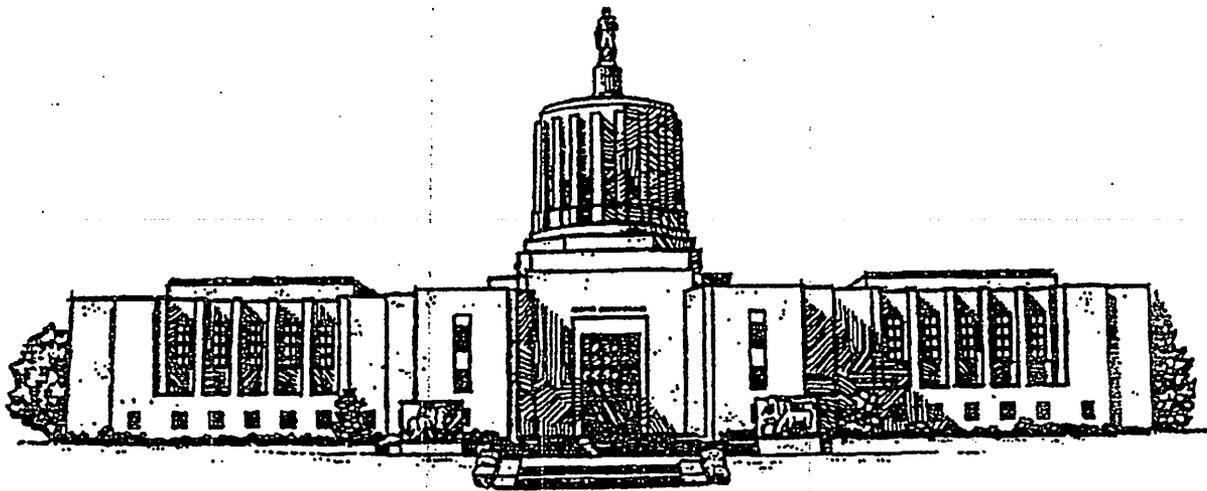
For vocational education programs, \$500,000 from the General Fund is provided to replace lost federal revenues of nearly \$1.5 million. A budget

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# 1987 Legislative Report

Oregon School Boards Association

—  
Confederation of Oregon  
School Administrators



# Finance and Taxation

## The Safety Net

One of Gov. Goldschmidt's campaign promises was to do something to prevent school closures. As the only state that can close its school doors for lack of funding, he said, Oregon's national image is tainted and the state's economic development efforts are suffering as a result.

Following through on his campaign promise, Gov. Goldschmidt made referral of a measure that would stop school closures part of his *60-day agenda*.

The 1987 Legislative Assembly responded with uncharacteristic speed. Less than two months after its first public hearing, the school safety net measure was complete and ready for the May 19 Special Election ballot.

According to Gov. Goldschmidt and the Legislature, the safety net measure is not the final answer to Oregon's school finance dilemma. In fact, it is not a school finance measure at all, but only a "first step" toward long-term reform. The "second step," we are told, will come later. The safety net will give us time to come up with real reform. In the meantime, school closures will not give Oregon a bad name in the national press.

The safety net is a relatively short, simple measure compared with other legislative referrals and initiatives that have dealt with school finance and appeared on statewide ballots in recent years. The themes used in the campaign were just as simple: "Prevents school closures. Does not allow any tax increase without voter approval. Stops school closures and maintains local control."

With the endorsement of the major public education interests and almost no real organized opposition, the safety net, *Measure 2*, was approved by Oregon voters by a 55 percent majority.

The safety net measure consists of two legislative

acts: the constitutional provisions of Senate Joint Resolution (SJR) 3, and the statutory implementing provisions of Senate Bill (SB) 278.

Following the May vote, the Legislature enacted two more bills that deal directly with the safety net. SB 687 provides clarifying amendments to SB 278 and prohibits school closures in districts operating within tax bases. House Bill (HB) 2526 establishes ballot title language for measures requesting a property tax levy in excess of a school district's safety net levy authority.

For purposes of discussion of the safety net, SJR 3, SB 278 and SB 687 are considered together. For reference, summaries of all four bills are included.

## The Old System

In terms of property tax levying authority, there are two types of Oregon school districts: those with tax bases adequate to operate a full school year, and those with inadequate or no tax bases.

Tax base districts, although they may occasionally seek voter approval of excess operating levies, generally are not threatened with school closures.

Those districts without adequate tax bases or none at all require voter approval of temporary levy authority. These districts seek either one-year operating levies or serial levies for up to three years to operate a full school year. Districts without adequate tax bases often submit repeated requests for levy approval to their voters. Some face school closure if those levies are not approved. It is these school closures the safety net is intended to prevent.

## The Safety Net (SJR 3, SB 278 and SB 687)

The safety net measure permits a school district to levy property taxes for operating purposes up to the amount levied for operations in the prior year, without additional voter approval.

An operating levy is defined as a district's total property tax levy less any levy for bonded debt service or any serial levy for capital construction. It is the levy certified to the county assessor by the district and does not include any offsets applied to the levy by the assessor, e.g., timber severance tax receipts.

The measure applies to all common and union high school districts, and only to those education service districts (ESDs) that levy property taxes directly for their component school districts—Grant, Harney, Wallowa and Wheeler ESDs.

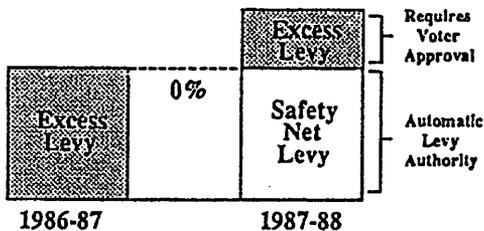
Only school districts that operated on an excess levy in the prior year have safety net levy authority in the current year.

Unless otherwise specified, the effective date of these laws is September 27, 1987.

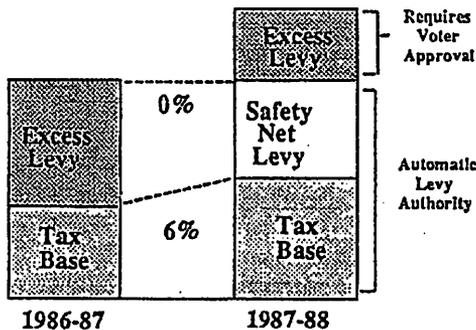
## Calculation of A Safety Net Levy

Following are several examples of how a safety net levy is calculated.

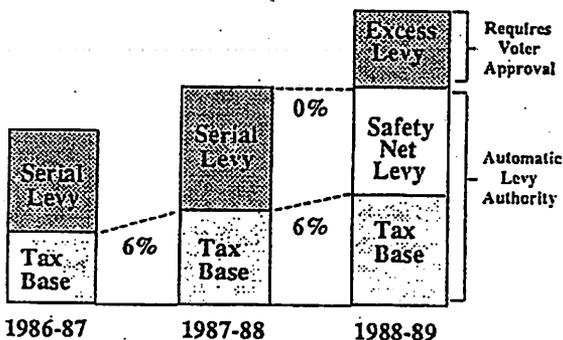
**Example 1:** School district "A" has no tax base. In 1986-87, its voters approved a one-year excess levy for operations. In 1987-88, its safety net levy will equal its 1986-87 levy and any amount in excess will require voter approval.



**Example 2:** School district "B" has an inadequate tax base. In 1986-87, its voters approved a one-year excess levy for operations. In 1987-88, its tax base will grow by six percent. Its safety net levy, when added to its tax base, will equal its 1986-87 total levy. Any amount in excess will require voter approval.



**Example 3:** School district "C" has an inadequate tax base. In 1986-87, its voters approved a two-year serial levy for operations. In 1987-88 and 1988-89, its tax base will grow by six percent. Its safety net levy in 1988-89 when added to its tax base, will equal its 1987-88 total levy. Any amount in excess will require voter approval.



## Falling into the Safety Net

Under the safety net measure, school districts may request voter approval for operating levies in excess of their tax bases or safety net authority at any of the scheduled election dates in March, May, June, August or September. If an excess levy is approved, that levy is certified to the county assessor and nothing changes from current law.

However, if a safety net district has not gained voter approval of a levy in excess of its safety net authority by Sept. 28, it must calculate its safety net levy and revise its budget by adjusting resources and reducing appropriations as necessary to operate a standard school for that budget year. Its safety net levy must be certified to the county assessor by Oct. 1.

A tax base district requesting an excess levy may use the November election date, if necessary. If the excess levy is not approved by Nov. 15, the district must revise its budget by adjusting resources and reducing appropriations as necessary to operate a standard school within its tax base for that year.

Once a school district has certified its property tax levy as required by the safety net measure (no later than Oct. 1 for safety net districts, Nov. 15 for tax base districts), it cannot submit another levy request for that year.

## Tax Base Elections

Under the provisions of the safety net measure, school districts are now authorized to submit requests to establish new or updated tax bases to voters annually on the third Tuesday in May. The November General Election may no longer be used by school districts for tax base requests.

If a school district levies a one-year property tax levy outside its tax base in any year, it must submit a proposal to establish a new tax base to voters in May of the following even-numbered year.

## Bill Summaries

**SJR 3**, approved by voters at the May 1987 Special Election, effective June 18, 1987, amends the Oregon Constitution to create a new Article XI, Section 11a. Section 11a provides an exception to the property tax limitation provisions of Article XI, Section 11 and allows school districts to levy property taxes for operating purposes no greater than the amount levied for operating purposes in the prior year. The new Section 11a also authorizes school districts to submit new tax base proposals to voters once each year.

**Chapter 16 (SB 278)**, effective June 18, 1987, implements the provisions of Article XI, Section 11a of the Oregon Constitution. This act defines terms used in Section 11a. It describes the method used for calculat-

ing a district's safety net levy. It also establishes requirements and deadlines for school districts' certification of their safety net levies.

A school district that does not have sufficient resources by Sept. 28 to operate a standard school for that year, as defined by the Department of Education, must calculate its safety net levy, adjust its budget resources and reduce appropriations as necessary to operate a standard school. Its safety net levy must be certified to the county assessor no later than Oct. 1. Following certification of a safety net levy, a school district is prohibited from seeking voter approval of an excess levy for operations for that school year.

This law establishes the third Tuesday in May of each year as the election at which school districts may submit proposals for new tax bases to voters. If a school district has levied a one-year tax outside its tax base, it is required to submit a proposal to establish a new tax base in May of the following even-numbered year.

Chapter 823 (SB 687) amends Chapter 16, Oregon Laws 1987 (SB 278) to:

- clarify the definition of serial levies for operating purposes;
- require school districts operating within their tax bases to operate a standard school;
- repeal the prohibition against adoption of a supplemental budget after certification of a safety net levy.

Only serial levies for operations may be used in determining a school district's safety net levy. This act defines a *non-operating serial levy* as one which is submitted to the voters "wholly or partially for the purpose of capital construction" or is levied for a period of more than three years.

Under the original provisions of SB 278, school districts operating within their tax bases were not affected. This act requires those districts, no later than Nov. 15, to adjust their budget resources and reduce appropriations as necessary to operate a standard school for that budget year. This provision prevents school districts operating within a tax base from closing early due to a lack of funds.

SB 278 originally contained language that prohibited a school district from adopting a supplemental budget during the school year in which it was operating under a safety net levy. The language was inadvertently left in the bill by the conference committee when it deliberated about the final form of the safety net measure. Chapter 823 repeals that language.

Unless otherwise specified, the effective date of these laws is September 27, 1987.

Chapter 183 (HB 2526), effective May 27, 1987, establishes the ballot title language to be used for a levy request in excess of a school district's safety net levy authority. The ballot caption and question must be worded as follows:

### SCHOOL DISTRICT OPERATING LEVY

Shall \_\_\_\_\_ school district levy \$ \_\_\_\_\_ in  
(fiscal year) in excess of the amount levied in (prior fiscal  
year) and outside its tax base?

A 150-word explanation of the measure also is allowed.

## Education Appropriations

Unlike recent legislative sessions, in 1987 the Basic School Support appropriation was not the last bill passed, or the *budget balancer* for state agency budgets.

Under Gov. Goldschmidt's leadership and with strong support from House and Senate Democrats, the Legislature adopted the first \$1 billion Basic School Support Fund appropriation bill in the state's history. The appropriation was \$30 million more than the amount recommended in the Governor's original budget. This represents a one percent increase in the state's share of school district current operating expenditures. The bill also contains a *hold harmless* clause to ensure that no school district will receive less Basic School Support in 1987-88 than it received in 1986-87.

Once again, however, the Legislature refused to increase state funds for Department of Education operations. A token one percent increase for the biennium seriously impedes the department's efforts to provide technical assistance and information to local districts.

In this same vein, the state percentage of General Fund monies appropriated for special education programs continues to fall. The \$45.6 million for grants-in-aid to special education programs for school districts, regional programs, trainable mentally retarded, talented and gifted and other programs represents a \$1.6 million reduction for the 1987-89 biennium when compared with 1985-87.

A modest \$6 million appropriation was made for the *school excellence* agenda and for a reorganization of policy and planning functions.

## Bill Summaries

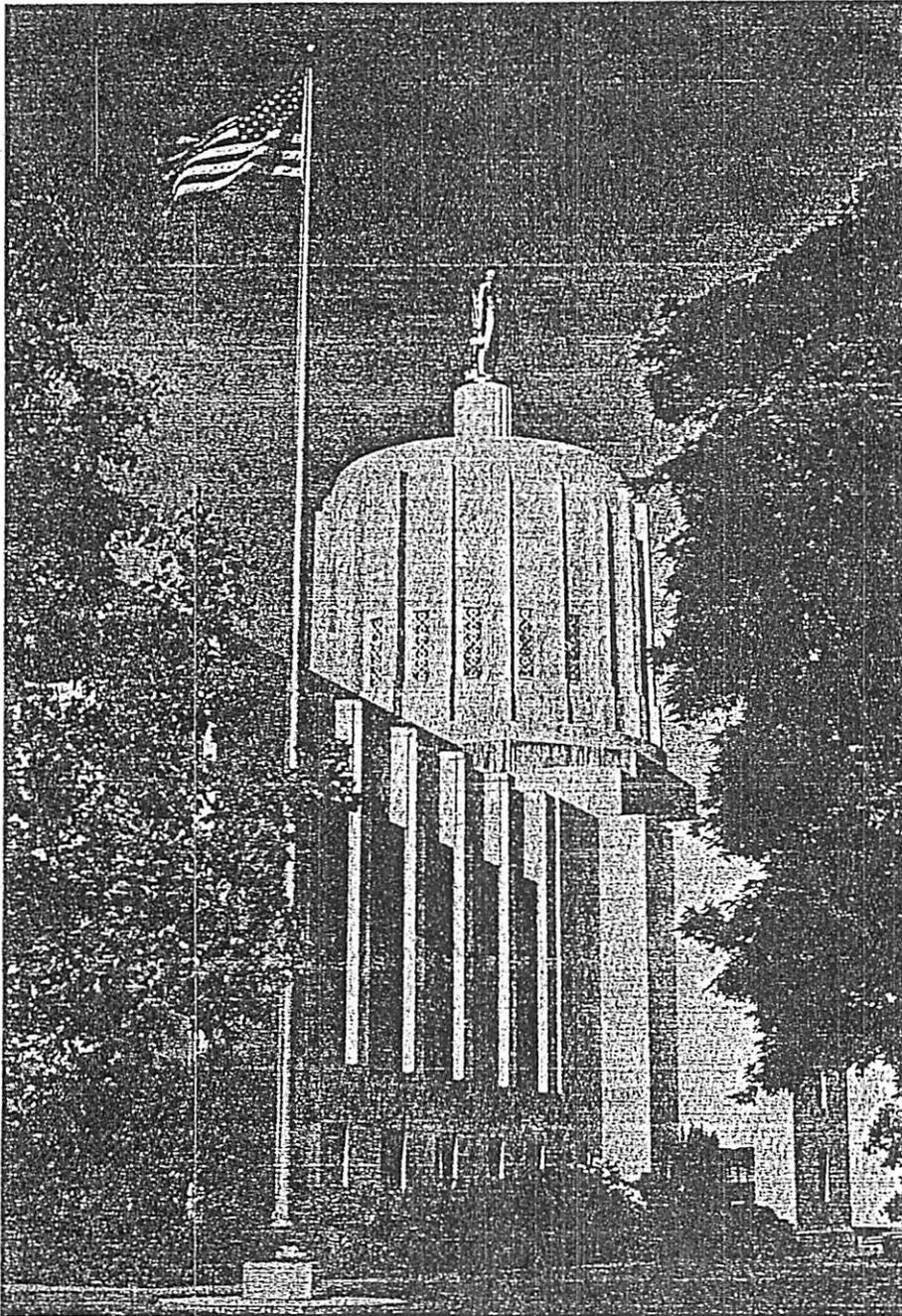
Chapter 395 (HB 5068), effective July 1, 1987, appropriates \$1.3 million for the administration of the Oregon Educational Coordinating Commission. This will, in effect, become funding for the new Oregon

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# 1989 Legislative Report

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Oregon  
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# 1989 Session in Brief

*"Imagine an Oregon where we debate educational excellence, not school finance."*

Gov. Neil Goldschmidt

*"The single most critical challenge facing us today is to take the next step in our strategic plan to stabilize the funding of Oregon's public school system."*

Senate President John Kitzhaber

*"We must next demand fundamental changes in the way schools are ... financed."*

House Speaker Vera Katz

With these words, the 65th Oregon Legislative Assembly convened and, once again, public school finance was a priority for legislative action. The Oregon Legislature was poised to take the next steps in an incremental approach to school finance reform.

Following a decade of voter rejection of no less than a dozen measures dealing with school finance and property tax relief, in 1987 Gov. Neil Goldschmidt proposed submitting a measure to voters that would prevent school closures. The Legislature agreed. The resulting safety net, approved by voters in May 1987, granted school districts automatic authority to levy their prior year's operating property taxes.

Preventing school closures for lack of operating funds, both safety net proponents and opponents agreed, was treatment of a symptom not a cure. Major surgery was needed to cure the chronic ailment that plagued Oregon's public school finance system: the schools' over-reliance on the already over-burdened property tax.

Nuclear approaches to school funding reform consistently failed to pass muster with Oregon voters. Consequently the 1987 Legislature created the Governor's Commission on School Funding Reform. The commission's job was to

recommend the next of several incremental steps that would have to be taken towards long-term reform.

The commission was to develop proposals that would reduce the reliance of schools on the property tax, increase state support and provide a stable, consistent and adequate funding system. The 11-member commission, following a year's work and involvement by some 150 citizens, presented its package to the Governor Sept. 1, 1988.

The Governor cut the commission's proposed \$318 million finance package to \$246 million before including it in his budget recommendations. A number of other non-finance proposals from the commission, including requiring school district unification, defining "basic education" and establishing statewide testing, were included in the Governor's recommended reform package.

With all of the Governor's Commission recommendations introduced and partially funded in the Governor's budget, the Legislature began immediate consideration of a package it had planned to submit to voters in a spring special election. The Legislature's package centerpiece was a constitutional amendment which granted all school districts that operated outside a tax base in 1988-89 new tax base levying authority. In addition, the legislative package included \$112 million in funding for targeted tax offsets and grants, special education, individual property tax relief and Basic School Support. The \$112 million appropriation was contingent upon voter approval of the tax base constitutional amendment.

The May election, however, saw the Legislature's Measure 1 go down to defeat. In the wake of Measure 1's defeat public school representatives worked hard to preserve at least the \$112 million contained in the package. Closed-door legislative leadership meetings and rumors as to who was spending public school money abounded. Public school finance reform no longer seemed to be the priority in May that it was in January.

Finally, the Legislature developed a package that has to be viewed as a series of small reforms. If these reforms are continued and enhanced by future legislatures they can form the basis for long-term school finance reform. At that, public school interests have to be somewhat pleased.

However, there is also cause for some disappointment. More could have been done given the fiscal health of the state's economy and, as a result, its General Fund. The appropriation to Basic School Support increased by nearly 15 percent, the largest increase since 1979; but total 1989-91 General Fund appropriations grew by nearly 23 percent. As a result, Basic School Support as a share of the 1989-91 General Fund declined to 25.6 percent from 27.4 percent in 1987-89. This is hardly the kind of commitment to expect for one of the Legislature's top priorities.

- Establishing financial incentives to encourage school district unification.
- Defeating a number of bills that would have eroded public bodies' limited sovereign immunity.
- Enacting much-needed clarification and limitations on school district boundary changes.
- Increasing funding options for asbestos abatement in school buildings.
- Allocating state funds to counties to assist them in their property assessment function.

### Disappointments

- The Legislature's failure to recognize that the issue of the use of corporal punishment is best left to local school district policies.
- Changing election notice deadlines so that notice for the March election must be given in January, prior to the time most school district's budget preparation cycles begin.
- Removing the requirement that continued professional development be required for teaching certificate renewal.
- Expanding reduction-in-force recall rights to 27 months.
- Allowing employees to collect unemployment compensation during a lockout work stoppage.

The 1989 Legislative Assembly saw the introduction of 3,020 bills. Of those, 1,178 were enacted. This *Legislative Report* summarizes the 130 new laws which directly affect public schools.

Board members or administrators who have questions or want further information about any of the bills in this report should call OSBA at 588-2800, or COSA at 581-3141.

Unless otherwise specified, the effective date of these laws is October 3, 1989.

# Finance and Taxation

## School Finance Reform

The 1989 legislative session's focus for school funding reform was on the recommendations from the Governor's Commission on School Funding Reform. Although the key component of the Commission's recommendations (updating all school tax bases) was rejected at the polls in May, most of the Commission's other recommendations were adopted as presented or with modifications. The school funding reform actions taken by the Legislature included:

- Modifying the Basic School Support formula to assure all districts an annual increase in state support during the next two years as efforts continue to implement major changes in the school funding system.
- Establishing a targeted tax relief program which directs state assistance to property taxpayers in the high tax rate/low-spending districts; plus provides direct state grants to districts with high tax rates and per pupil expenditures less than 90 percent of the statewide average per pupil expenditure.
- Increasing state support for special education programs serving children with high-cost/low-incidence handicapping conditions, specifically increasing the state budget for regional programs and reimbursement to school districts for educating trainable mentally retarded (TMR) students.
- Increasing the Oregon Department of Education's budget to strengthen the school district standardization process and to develop statewide assessment procedures, including testing of all students in grades 3, 5, 8 and 11.

- Directing the Department of Education to define the basic education program that will be available to all K-12 students. This includes identifying the support services required to provide that program and developing an accounting system that will identify the cost of providing the basic education program in each school district.
- Requiring that revenue and expenditure impact statements be prepared on all legislation introduced that affects the revenues or expenditures of local school districts. School districts will be involved in developing the statements.
- Providing financial incentives to local school districts to unify or merge by increasing Basic School Support for the new district in each of the first three years after the merger.
- Increasing interest on past due property taxes, imposing a real estate transfer recording fee and dedicating the proceeds to counties to assist with property assessment functions.

To continue the effort to resolve the school funding problem, the Legislature also instructed the Joint Interim Committee on Revenue and School Finance to develop alternatives to achieve taxpayer equity in funding primary and secondary education. The charge includes developing alternative ways to replace all or a major portion of the property tax used to fund primary and secondary education. To assist with this task the Legislature provided the joint committee with authority to submit to the voters advisory measures related to school funding. The advisory measures, if any, would be on the May 1990 primary election ballot.

### Bill Summaries

Chapter 796 (HB 2338) amends ORS 311.505 and others to increase the interest rate on past due property taxes from 12 to 16 percent per year. It establishes a \$20 property transaction recording fee to provide counties with additional funding to defray their property assessment costs.

The proceeds from the increase in interest rates and the recording fee will be placed in a fund administered by the Department of Revenue. To access the fund, counties must show they are currently in compliance with the statutory six-year reappraisal cycle; or, if not, have a plan to bring it into compliance.

This new law increases the professional standards and training required for county assessors. It also prescribes penalties for counties which fail to comply with property assessment statutes.

The funding provided and procedures established by this act will restore Oregon's property tax assessment program to the status it held in the late 1960s as one of the best in the country. During the past 20 years the property assessment program has deteriorated to the point where the majority of

Oregon's counties are not current with their property assessments. The lack of current property assessment is difficult, if not impossible, to address the issue of equity in the property tax system.

Chapter 968 (HB 2132) directs the State Board of Education to define by rule a basic education program to be available to all elementary and secondary students in Oregon. Services required to support the defined basic education program are to be recommended. Statewide accounting procedures to permit identification of the actual costs in each school district for providing the basic education program and required support services are to be developed. The act specifies the basic education program shall include but not be limited to:

1. Language arts, emphasizing reading, listening, speaking, written or alternative communication skills and instruction in foreign language;
  2. Mathematics, emphasizing fundamental numerical concepts; computational skills, problem-solving, space concepts, measurement and statistics;
  3. Science, emphasizing basic scientific knowledge, principles, concepts and processes;
  4. Economics and social studies, emphasizing the history, geography, cultures and governments of Oregon, the United States and the world;
  5. Health and physical education;
  6. Music and visual arts programs, emphasizing knowledge and appreciation of the arts and developing basic skills therein;
  7. Career and vocational education, emphasizing a body of knowledge and skills pertaining directly to preparation for employment, family roles and applied academics;
  8. Education programs mandated by state or federal law.
- The State Board was further directed to report to the Senate President and the House Speaker by July 1, 1990, regarding the proposed basic education program, related support services and accounting procedures. The dollar amount required to provide a basic education program and support services in each school district must be part of the report.

The identification of the basic education that Oregon wants to provide all students in elementary and secondary schools and the program's cost will provide data required to address the issues of equity for property taxpayers as well as equity for students. The process also will define the cost of the state of developing an adequate, stable and equitable system for funding elementary and secondary education.

Chapter 969 (HB 2658), effective July 1, 1989, provides incentives to school districts to unify or merge by increasing Basic School Support to those districts. Under the act, when a union high school district becomes a common school district or when a unified elementary school district merges with a district providing education in kindergarten through grade 12, the newly formed district is entitled to an additional 15 percent in Basic School Support in the first year

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# 1991 Legislative Report

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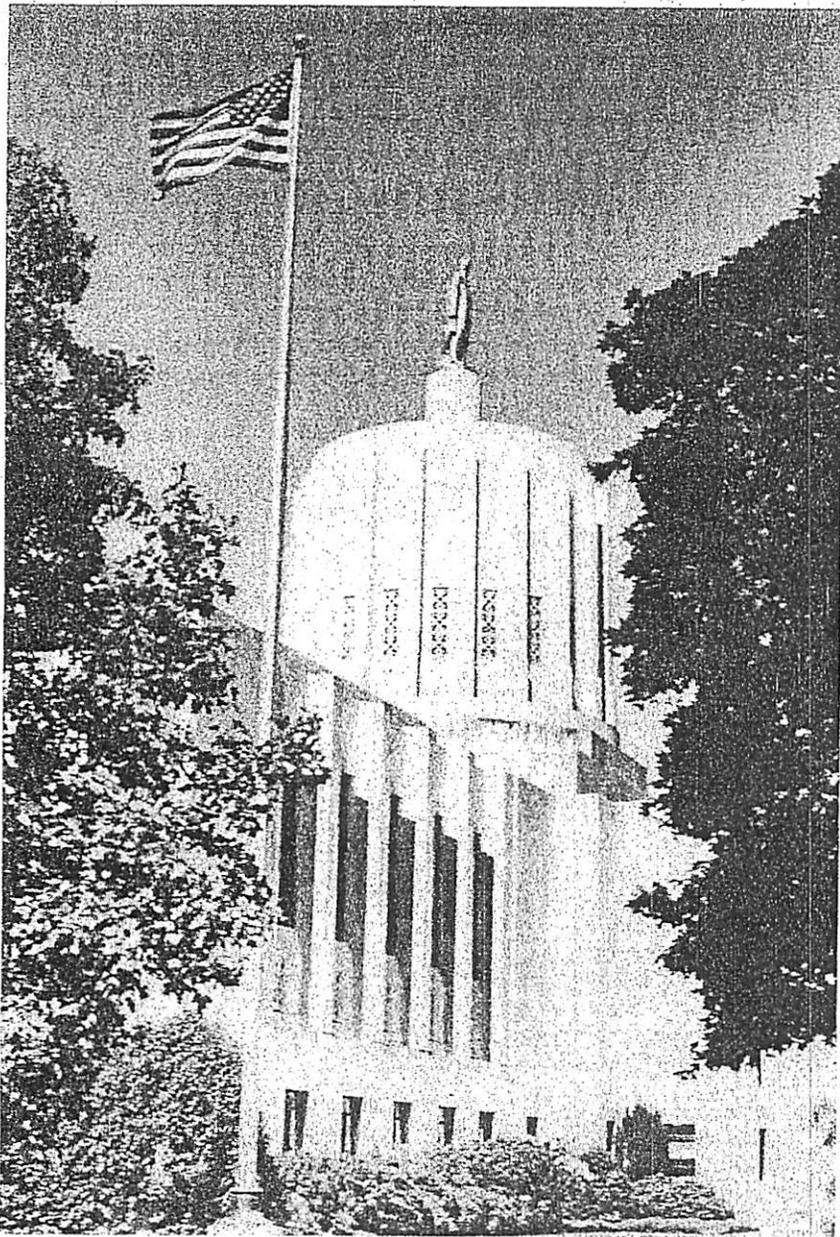


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# The 1991 Session in Brief

The 66th Oregon Legislative Assembly may well be remembered as the most significant Oregon legislature of the past 50 years in terms of legislation impacting public education. Setting aside a tradition of local control dating back to the founding of the state, the Legislature passed bills that mandated major reform in the structure, funding, responsibility and accountability of local school districts. The magnitude of the changes resulting from the proposed reforms will not be known until the end of the decade.

When the session convened in January the traditional campaign rhetoric about the high priority of public school funding was muted considerably by the uncertainty created by Ballot Measure 5. In addition, there were other factors in the political arena that were to have considerable impact on the Legislature's public education agenda:

- For the first time in two decades, the House (Republican) and the Senate (Democrat) were controlled by different parties;
- The Superintendent of Public Instruction was a popular political figure with strong ties to the legislative process and the Republican House leadership;
- The education community (State Superintendent Paulus, OSBA, COSA and the OEA) for the first time formed and maintained an alliance on issues related to school funding and governance;
- The demand for funding equity was strengthened by the state's increasing responsibility for funding elementary and secondary education due to Ballot Measure 5 and a pending decision of the Oregon Supreme Court regarding the constitutionality of Oregon's existing school funding system;
- The linking of school reform efforts to the workforce quality issue and concerns regarding the future of Oregon's economy in the world marketplace.

## School Finance

The education community began the session with a strong effort to gain an early Basic School Support appropriation for the first year (1991-92) of the biennium and asked that the question of equity and the development of a new distribution formula be addressed in the latter part of the session when final revenue forecasts would be available. This strategy alienated some school districts and their legislators who argued

for equity now. In the end, the education community was not successful in leveraging the appropriation level desired. During this debate, it became apparent that the legislative leadership was willing to make the first-year appropriation, but were going to reserve as many dollars as possible for the second year to address the political pressures anticipated in moving to a new equitable distribution formula.

The leadership's fears were well-founded. After limiting the first-year appropriation, the funds available for 1992-93 were not sufficient to implement a new distribution formula without controversy and divisiveness among school districts.

The new distribution formula does make significant progress toward a system to provide equal educational resources for each pupil in Oregon's elementary and secondary schools. However, because of the limited increase in state support, the equalization approach results in shifting resources from higher-spending to lower-spending districts — leveling down. One of the questions Oregonians, educators and legislators will face during the 1993 legislative session is: Should equity be achieved by reducing or eliminating quality programs in some districts to assist others, or should equity result from increased funding by the state?

## School Reform/Improvement

The debate on school reform was focused primarily on HB 3565 — the Oregon Educational Act for the 21st Century. However, the school reform/improvement issue was addressed in a package of three bills (HB 3133, HB 3474 and HB 3565) which address education reform in elementary and secondary schools and Oregon workforce training for the 21st Century.

HB 3133 established the Oregon Workforce Council and directed it to "oversee" the implementation of workforce development strategies including secondary school reform. HB 3474 focuses on promotion of education and job training for Oregon students including creation of models for secondary vocational and technical educational training for teachers.

Clearly the most important school reform effort for school officials and educators will come from implementation of HB 3565. This bill fundamentally restructures

what Oregon's elementary and secondary schools will look like and what they will do. If it is fully-funded, as the deadlines for various mandates occur over the next decade, and if the political leadership, business community and general public join the education community in developing and carrying out the proposed reforms, success in real school improvement will occur.

## In Summary

Although the legislative agenda for education was dominated by funding and school reform, legislation on other important educational issues was enacted including:

- Transferring the responsibility of early intervention programs to the state Department of Education (SB 1146);
- Requiring school district unification and consolidation so that by Sept. 1, 1996, all districts will offer K-12 programs (SB 917);
- Increasing the funding for Oregon's pre-kindergarten *Headstart* program (SB 851);
- Eliminating the Textbook Commission and transferring textbook adoption responsibility to the state Board of Education (HB 2421);
- Allowing home school students to participate in interscholastic activities offered in their public schools (HB 2574);
- Prohibiting schools from permitting persons under 18 years of age to possess tobacco products on school grounds or while attending any school-sponsored activity.

The 1991 legislative session was difficult yet productive for the education community and public education. The debate over school funding and school reform created divisions within the educational community and pitted school district against school district. Yet final legislation in both areas establishes a foundation that has the potential to establish a stronger, more stable education program for every Oregon student. Whether this potential is realized depends on the action by the education community and future legislatures.

This joint OSBA/COSA *Legislative Report* summarizes the new laws which affect public schools. Board members or administrators who have questions or want further information about any of the bills in this report should call OSBA at 588-2800 or COSA at 581-3141.

The 1991 Legislative Assembly's deliberations and decisions relating to school finance were driven by the adoption of Ballot Measure 5, now Article XI, Section 11b of the Oregon Constitution. A fundamental restructuring of the property tax system and new formulas for distributing state aid to public schools as we move to an essentially state-funded school system were the major challenges facing the 1991 Legislature.

Oregon schools will receive their 1991-92 state funds under a *status quo* formula. The formula in SB 815 retains Basic School Support and the frozen formula used the last two years. The 1991-92 formula, through special equalization grants, begins to address the disparities in school district per pupil spending. SB 815 also establishes a method to determine and distribute property tax loss replacement funds due the public school system by the provisions of Ballot Measure 5.

For 1992-93, a totally new school funds distribution formula is created by SB 814. The new formula will direct funds to school districts according to their number and kinds of students. It will bear no relationship to the property wealth of the district or to former spending per student patterns. A hold-harmless feature, created out of political necessity, will prevent any school district from losing funds in 1992-93 or from gaining by more than 25 percent over 1991-92.

Since Measure 5 contained words and phrases without current statutory definition and requires new procedures for imposing, collecting and distributing property taxes, the basic architecture of the property tax system had to be redefined, amended or rewritten. HB 2550 is the massive 280-page act that implements the provisions of Ballot Measure 5.

Since Measure 5 will provide significant property tax reductions, the 1991 Legislature reduced in 1991 and repealed for 1992 the Homeowners and Renters Refund Program (HARRP).

## Distribution

SB 814 (Chapter 780), effective June 30, 1992, for the 1992-93 fiscal year, creates a new distribution formula for state elementary and secondary school support. SB 814 establishes the State School Fund consisting of funds appropriated by SB

5576 which include property tax loss replacement constitutionally mandated by Measure 5 and an additional allocation totalling \$1.1 billion for 1992-93.

The new formula, a fully equalized foundation grant program, allocates state funds to school districts based on a general purpose grant per weighted student and a transportation grant, reduced by school districts' local general revenue. The new formula contains provisions for "necessary small schools," districts with declining enrollment, an adjustment for teacher experience and a 1992-93 hold-harmless feature.

The new school support distribution formula created by SB 814 is an imbursement rather than reimbursement formula. That is, data used to determine distribution of the formula are estimates for the same year as the distribution occurs. Adjustments to a school district's allocation as a result of actual audited data that differs from the estimates will be made in the May allocation during the next year.

Details of the new State School Fund follow.

### ADM Weights

**Special Education** — Each student eligible for special education services as a handicapped child, as defined in ORS 343.035, is allowed additional weighting for a total of 2.0.

These children include those traditionally categorized as mentally retarded, hard of hearing, deaf, speech impaired, visually handicapped, seriously emotionally disturbed, orthopedically impaired or other health impaired, pregnant or specifically learning disabled.

No more than 11 percent of a district's total average daily membership (ADM) may be considered eligible for the special education weighting without review and approval of the state Department of Education.

**At Risk** — Two factors are used in SB 814 as proxies for at-risk students: English as a second language (ESL) and poverty.

Students enrolled in ESL programs, as defined in ORS 336.079, are allowed an additional weighting of 0.5 for a total of 1.5.

Each student identified as "poverty" is allowed an additional weighting of 0.25 for a total of 1.25.

"Poverty" is defined based on the following criteria:

- The number of children aged 5 to 18

in poverty families in the district as determined by the state Department of Education from a report of the U.S. Department of Education;

- The number of children in foster homes in the district as determined by a report from the state Department of Human Resources to the U.S. Department of Education; and
- The number of children in the district in state-recognized facilities for neglected and delinquent children based on information from the state Department of Human Resources.

**District Type** — Students in an elementary district operating grades K-6 or K-8 are weighted as 0.9. Students in union high school districts are eligible for an additional weighting 0.2 for a total of 1.2 for 1992-93 only.

These weightings are intended to reflect the cost differences between high school and elementary programs.

**Necessary Small Schools** — Students in a necessary small school, as defined in ORS 327.075 (250 or fewer students), receive an additional weight which is higher the smaller the school. The maximum additional weight is 1.0 for a maximum total of 2.0. To qualify, elementary schools generally must be more than 10 miles from the nearest school; secondary schools must be more than 15 miles from the nearest school.

**Maximum Weighting** — Student weights, other than the additional 0.25 weighting for poverty, may not be combined to total more than 3.0.

### Declining Enrollment

SB 814 requires the use of the prior year's ADMw (weighted ADM) count if it is greater than the current year's ADMw count. This provision allows a one-year lag for school districts with declining enrollment.

### Target Grant

SB 814 establishes the target grant at \$4,500 per ADMw but allows a percentage adjustment to be calculated "to distribute . . . the total sum available for distribution." Since the State School Fund appropriation is inadequate to provide the \$4,500 per weighted student target grant, the grant currently is estimated at \$4,260 per ADMw for 1992-93.

The target grant also is adjusted to reflect the relationship between a district's average certified teacher experience (seniority) and statewide average teacher experience. Twenty-five dollars is added to

# 1992-93 State School Fund Formula

State School Fund Grant = [Funding Percentage x Target Grant x ADM<sup>w</sup>] + Transportation Grant - Local Revenue

ADM Weights*: Category	Additional Weight	Total Weight	Target Grant:
Special Education At Risk:	1.0	2.0	\$4,500 per ADM <sup>w</sup> 1992-93 Est.:
Poverty	0.25	1.25	\$4,260 per ADM <sup>w</sup>
ESL	0.5	1.5	
Union High	0.2	1.2	
Elementary	-0.1	0.9	
Necessary Small Schools	1.0 (maximum)	2.0 (maximum)	

**Teacher Experience:**  
Add or subtract \$25 for each year district average teacher experience exceeds or is less than statewide average teacher experience (1992-93 est. = 13 years).

\*Excluding the poverty weight, no student can be weighted more than 3.0 in total.

## Transportation Grant:

- 70 percent of approved costs of transporting
- For health, safety or special education
- Preschool handicapped
- Elementary — more than 1 mile
- Secondary — more than 1.5 miles
- Students between facilities
- Field trips
- Room and board in lieu of transportation

## Local Revenue:

- Property taxes and offsets
- Common School Fund
- County School Fund
- Federal Forest Receipts (25%)
- Chapter 530 forest revenue
- Equalization ESD funds
- Supplantable federal funds
- In lieu property taxes

or subtracted from the target grant for each year the district's average teacher experience in years exceeds or is less than statewide average teacher experience. The statewide average is currently estimated at 13 years.

#### Transportation Grant

The State School Fund formula provides each school district a transportation grant equal to 70 percent of its approved transportation costs.

Approved transportation costs will be defined by rule by the state Department of Education. However, SB 814 includes the following limitations on approved costs to those of transporting:

- Elementary students who live at least one mile from school;
- Secondary students who live at least 1.5 miles from school;
- Students required to be transported for health or safety reasons, or special education purposes;
- Handicapped preschool children requiring early intervention services;
- Students between schools or facilities during the school day or week; and
- Students participating in school-sponsored field trips that are extensions of classroom learning experiences.

SB 814 requires transportation to be provided to elementary students who reside more than one mile from school and secondary students who reside more than 1.5 miles from school. The secondary student transportation requirement may be waived by the state Board of Education if the school district presents a plan identifying "suitable and sufficient alternative modes" of transporting secondary students. Approved transportation costs also include room and board provided in lieu of transportation according to the criteria above.

Approved transportation costs are required to include depreciation of the original cost to the district of district-owned buses not in excess of 10 percent per year. School districts are required to account separately for these funds and their expenditure is limited to the acquisition of new buses or transportation equipment.

#### Local Revenue

SB 814 requires certain sources of local school district revenue to be deducted from the school district's State School Fund grant.

Those revenue sources include:

- Property taxes actually imposed within the limits of Measure 5;
- Property tax offsets primarily consisting of timber severance tax receipts;
- Receipts from the Common School Fund;
- Receipts from the County School Fund;
- 25 percent of Federal Forest Fees required to be distributed to schools;

- Receipts from Chapter 530 state-managed forest lands;
- Funds received by a school district from an equalization ESD (Grant, Wallowa and Wheeler);
- Federal funds received by the school district without specific application and which are supplantable; and
- Funds received by a school district in lieu of property taxes.

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potential for refunds of property taxes already paid, school districts and other taxing units may experience some reduction in property tax collections as a result.

**Tax Payments and Refunds** — HB 2550 retains current timelines for the payment of property taxes (in full by Nov. 15 or one-third on Nov. 15, Feb. 15 and May 15) with the 3 percent discount available for full payment by Nov. 15. School districts and other taxing units can expect to receive their property taxes on essentially the same schedule as they currently do. Under the provisions of HB 2550, taxpayers who appeal their property values may pay less than the full amount of property taxes due and may apply any potential reduction in their property taxes to future payments. Taxpayers may also pay their property taxes due in full and be entitled to refunds, with interest, if their appeals are successful.

HB 2550 authorizes the county treasurer to establish a refund reserve account separate from the unsegregated tax collections account. The refund reserve account will consist of a portion of current property tax collections equal to anticipated property tax refunds for the county. The purpose of this reserve account is to make property tax refunds without drawing on property taxes already received by schools and other taxing units.

This act also allows larger refunds, those exceeding \$250,000 or one-quarter of one percent of total county tax bills, to be spread out over a five-year period.

HB 2550 makes no changes to current provisions requiring the removal of disputed property value from the tax roll when that value exceeds one-quarter of one percent of the total value of the county.

**Special Assessments** — HB 2550 applies Measure 5's property tax rate limits to certain properties' specially-assessed value rather than their real market value, as defined by Measure 5. The affected properties are farm land, forest land, open-space land, historic property and property entitled to a veterans' exemption.

This provision will result in less property tax being collected from these properties than would otherwise be collected if Measure 5's rate limits applied to the properties' higher real market values.

The property tax loss to school districts, ESDs and community colleges will increase the state's property tax loss replacement obligation under the provisions of Measure 5.

**Urban Renewal** — HB 2550 makes a number of changes in the statutes governing urban renewal or tax-increment financing to conform to the provisions of Measure 5.

Most significantly, this act imposes the

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# 1991 Legislative Report

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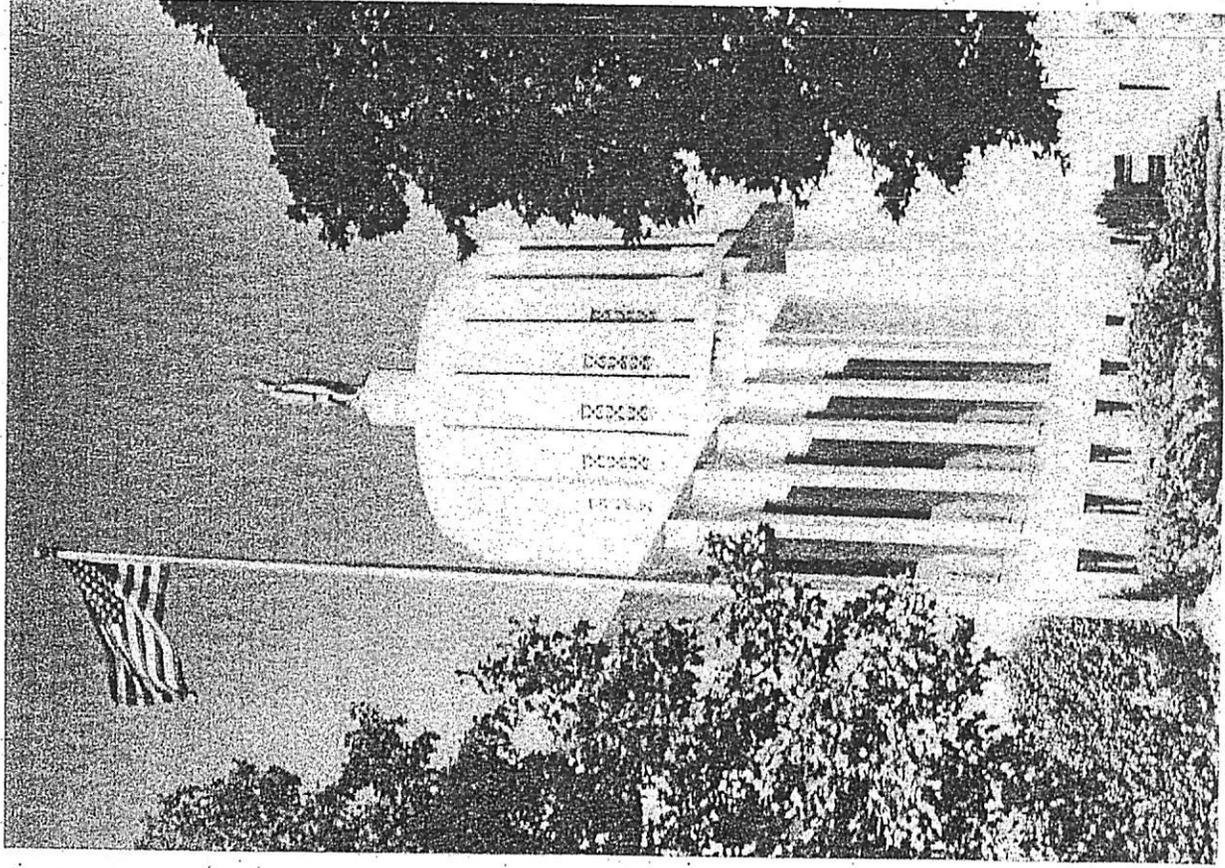


Photo courtesy of Oregon Legislative Media Services

Confederation  
of Oregon  
School  
Administrators

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Oregon  
School  
Boards  
Association

# The 1991 Session in Brief

The 66th Oregon Legislative Assembly may well be remembered as the most significant Oregon legislature of the past 50 years in terms of legislation impacting public education. Setting aside a tradition of local control dating back to the founding of the state, the Legislature passed bills that mandated major reform in the structure, funding, responsibility and accountability of local school districts. The magnitude of the changes resulting from the proposed reforms will not be known until the end of the decade.

When the session convened in January the traditional campaign rhetoric about the high priority of public school funding was muted considerably by the uncertainty created by Ballot Measure 5. In addition, there were other factors in the political arena that were to have considerable impact on the Legislature's public education agenda:

- For the first time in two decades, the House (Republican) and the Senate (Democrat) were controlled by different parties;
- The Superintendent of Public Instruction was a popular political figure with strong ties to the legislative process and the Republican House leadership;
- The education community (State Superintendent Paulus, OSBA, COSA and the OEA) for the first time formed and maintained an alliance on issues related to school funding and governance;
- The demand for funding equity was strengthened by the state's increasing responsibility for funding elementary and secondary education due to Ballot Measure 5 and a pending decision of the Oregon Supreme Court regarding the constitutionality of Oregon's existing school funding system;
- The linking of school reform efforts to the workforce quality issue and concerns regarding the future of Oregon's economy in the world marketplace.

## School Finance

The education community began the session with a strong effort to gain an early Basic School Support appropriation for the first year (1991-92) of the biennium and asked that the question of equity and the development of a new distribution formula be addressed in the latter part of the session when final revenue forecasts would be available. This strategy alienated some school districts and their legislators who argued

for *equity now*. In the end, the education community was not successful in leveraging the appropriation level desired. During this debate, it became apparent that the legislative leadership was willing to make the first-year appropriation, but were going to reserve as many dollars as possible for the second year to address the political pressures anticipated in moving to a new *equitable* distribution formula.

The leadership's fears were well-founded. After limiting the first-year appropriation, the funds available for 1992-93 were not sufficient to implement a new distribution formula without controversy and divisiveness among school districts.

The new distribution formula does make significant progress toward a system to provide equal educational resources for each pupil in Oregon's elementary and secondary schools. However, because of the limited increase in state support, the equalization approach results in shifting resources from higher-spending to lower-spending districts — leveling down. One of the questions Oregonians, educators and legislators will face during the 1993 legislative session is: Should equity be achieved by reducing or eliminating quality programs in some districts to assist others, or should equity result from increased funding by the state?

## School Reform/Improvement

The debate on school reform was focused primarily on HB 3565 — the Oregon Educational Act for the 21st Century. However, the school reform/improvement issue was addressed in a package of three bills (HB 3133, HB 3474 and HB 3565) which address education reform in elementary and secondary schools and Oregon workforce training for the 21st Century.

HB 3133 established the Oregon Workforce Council and directed it to "oversee" the implementation of workforce development strategies *including secondary school reform*. HB 3474 focuses on promotion of education and job training for Oregon students including creation of models for secondary vocational and technical educational training for teachers.

Clearly the most important school reform effort for school officials and educators will come from implementation of HB 3565. This bill fundamentally restructures

what Oregon's elementary and secondary schools will look like and what they will do. If it is fully-funded, as the deadlines for various mandates occur over the next decade, and if the political leadership, business community and general public join the education community in developing and carrying out the proposed reforms, success in real school improvement will occur.

## In Summary

Although the legislative agenda for education was dominated by funding and school reform, legislation on other important educational issues was enacted including:

- Transferring the responsibility of early intervention programs to the state Department of Education (SB 1146);
- Requiring school district unification and consolidation so that by Sept. 1, 1996, all districts will offer K-12 programs (SB 917);
- Increasing the funding for Oregon's pre-kindergarten *Headstart* program (SB 851);
- Eliminating the Textbook Commission and transferring textbook adoption responsibility to the state Board of Education (HB 2421);
- Allowing home school students to participate in interscholastic activities offered in their public schools (HB 2574);
- Prohibiting schools from permitting persons under 18 years of age to possess tobacco products on school grounds or while attending any school-sponsored activity.

The 1991 legislative session was difficult yet productive for the education community and public education. The debate over school funding and school reform created divisions within the educational community and pitted school district against school district. Yet final legislation in both areas establishes a foundation that has the potential to establish a stronger, more stable education program for every Oregon student. Whether this potential is realized depends on the action by the education community and future legislatures.

This joint OSBA/COSA *Legislative Report* summarizes the new laws which affect public schools. Board members or administrators who have questions or want further information about any of the bills in this report should call OSBA at 588-2800 or COSA at 581-3141.

The 1991 Legislative Assembly's deliberations and decisions relating to school finance were driven by the adoption of Ballot Measure 5, now Article XI, Section 11b of the Oregon Constitution. A fundamental restructuring of the property tax system and new formulas for distributing state aid to public schools as we move to an essentially state-funded school system were the major challenges facing the 1991 Legislature.

Oregon schools will receive their 1991-92 state funds under a *status quo* formula. The formula in SB 815 retains Basic School Support and the frozen formula used the last two years. The 1991-92 formula, through special equalization grants, begins to address the disparities in school district per pupil spending. SB 815 also establishes a method to determine and distribute property tax loss replacement funds due the public school system by the provisions of Ballot Measure 5.

For 1992-93, a totally new school funds distribution formula is created by SB 814. The new formula will direct funds to school districts according to their number and kinds of students. It will bear no relationship to the property wealth of the district or to former spending per student patterns. A hold-harmless feature, created out of political necessity, will prevent any school district from losing funds in 1992-93 or from gaining by more than 25 percent over 1991-92.

Since Measure 5 contained words and phrases without current statutory definition and requires new procedures for imposing, collecting and distributing property taxes, the basic architecture of the property tax system had to be redefined, amended or rewritten. HB 2550 is the massive 280-page act that implements the provisions of Ballot Measure 5.

Since Measure 5 will provide significant property tax reductions, the 1991 Legislature reduced in 1991 and repealed for 1992 the Homeowners and Renters Refund Program (HARRP).

## Distribution

SB 814 (Chapter 780), effective June 30, 1992, for the 1992-93 fiscal year, creates a new distribution formula for state elementary and secondary school support. SB 814 establishes the State School Fund consisting of funds appropriated by SB

5576 which include property tax loss replacement constitutionally mandated by Measure 5 and an additional allocation totalling \$1.1 billion for 1992-93.

The new formula, a fully equalized foundation grant program, allocates state funds to school districts based on a general purpose grant per weighted student and a transportation grant, reduced by school districts' local general revenue. The new formula contains provisions for "necessary small schools," districts with declining enrollment, an adjustment for teacher experience and a 1992-93 hold-harmless feature.

The new school support distribution formula created by SB 814 is an imbursement rather than reimbursement formula. That is, data used to determine distribution of the formula are estimates for the same year as the distribution occurs. Adjustments to a school district's allocation as a result of actual audited data that differs from the estimates will be made in the May allocation during the next year.

Details of the new State School Fund follow.

### ADM Weights

**Special Education** — Each student eligible for special education services as a handicapped child, as defined in ORS 343.035, is allowed additional weighting for a total of 2.0.

These children include those traditionally categorized as mentally retarded, hard of hearing, deaf, speech impaired, visually handicapped, seriously emotionally disturbed, orthopedically impaired or other health impaired, pregnant or specifically learning disabled.

No more than 11 percent of a district's total average daily membership (ADM) may be considered eligible for the special education weighting without review and approval of the state Department of Education.

**At Risk** — Two factors are used in SB 814 as proxies for at-risk students: English as a second language (ESL) and poverty.

Students enrolled in ESL programs, as defined in ORS 336.079, are allowed an additional weighting of 0.5 for a total of 1.5.

Each student identified as "poverty" is allowed an additional weighting of 0.25 for a total of 1.25.

"Poverty" is defined based on the following criteria:

- The number of children aged 5 to 18

in poverty families in the district as determined by the state Department of Education from a report of the U.S. Department of Education;

- The number of children in foster homes in the district as determined by a report from the state Department of Human Resources to the U.S. Department of Education; and
- The number of children in the district in state-recognized facilities for neglected and delinquent children based on information from the state Department of Human Resources.

**District Type** — Students in an elementary district operating grades K-6 or K-8 are weighted as 0.9. Students in union high school districts are eligible for an additional weighting 0.2 for a total of 1.2 for 1992-93 only.

These weightings are intended to reflect the cost differences between high school and elementary programs.

**Necessary Small Schools** — Students in a necessary small school, as defined in ORS 327.075 (250 or fewer students), receive an additional weight which is higher the smaller the school. The maximum additional weight is 1.0 for a maximum total of 2.0. To qualify, elementary schools generally must be more than 10 miles from the nearest school; secondary schools must be more than 15 miles from the nearest school.

**Maximum Weighting** — Student weights, other than the additional 0.25 weighting for poverty, may not be combined to total more than 3.0.

### Declining Enrollment

SB 814 requires the use of the prior year's ADMw (weighted ADM) count if it is greater than the current year's ADMw count. This provision allows a one-year lag for school districts with declining enrollment.

### Target Grant

SB 814 establishes the target grant at \$4,500 per ADMw but allows a percentage adjustment to be calculated "to distribute . . . the total sum available for distribution." Since the State School Fund appropriation is inadequate to provide the \$4,500 per weighted student target grant, the grant currently is estimated at \$4,260 per ADMw for 1992-93.

The target grant also is adjusted to reflect the relationship between a district's average certified teacher experience (seniority) and statewide average teacher experience. Twenty-five dollars is added to

# 1992-93 State School Fund Formula

State School Fund Grant = [Funding Percentage x Target Grant x ADM<sup>w</sup>] + Transportation Grant - Local Revenue

ADM Weights*: Category	Additional Weight	Total Weight	Target Grant:
Special Education At Risk:	1.0	2.0	\$4,500 per ADM <sup>w</sup> 1992-93 Est.:
Poverty	0.25	1.25	\$4,260 per ADM <sup>w</sup>
ESL	0.5	1.5	
Union High	0.2	1.2	
Elementary	-0.1	0.9	
Necessary Small Schools	1.0 (maximum)	2.0 (maximum)	

**Teacher Experience:**  
Add or subtract \$25 for each year district average teacher experience exceeds or is less than statewide average teacher experience (1992-93 est. = 13 years).

\*Excluding the poverty weight, no student can be weighted more than 3.0 in total.

## Transportation Grant:

- 70 percent of approved costs of transporting
- For health, safety or special education
  - Preschool handicapped
  - Elementary — more than 1 mile
  - Secondary — more than 1.5 miles
  - Students between facilities
  - Field trips
  - Room and board in lieu of transportation

## Local Revenue:

- Property taxes and offsets
- Common School Fund
- County School Fund
- Federal Forest Receipts (25%)
- Chapter 530 forest revenue
- Equalization ESD funds
- Supplantable federal funds
- In lieu property taxes

or subtracted from the target grant for each year the district's average teacher experience in years exceeds or is less than statewide average teacher experience. The statewide average is currently estimated at 13 years.

#### Transportation Grant

The State School Fund formula provides each school district a transportation grant equal to 70 percent of its approved transportation costs.

Approved transportation costs will be defined by rule by the state Department of Education. However, SB 814 includes the following limitations on approved costs to those of transporting:

- Elementary students who live at least one mile from school;
- Secondary students who live at least 1.5 miles from school;
- Students required to be transported for health or safety reasons, or special education purposes;
- Handicapped preschool children requiring early intervention services;
- Students between schools or facilities during the school day or week; and
- Students participating in school-sponsored field trips that are extensions of classroom learning experiences.

SB 814 requires transportation to be provided to elementary students who reside more than one mile from school and secondary students who reside more than 1.5 miles from school. The secondary student transportation requirement may be waived by the state Board of Education if the school district presents a plan identifying "suitable and sufficient alternative modes" of transporting secondary students. Approved transportation costs also include room and board provided in lieu of transportation according to the criteria above.

Approved transportation costs are required to include depreciation of the original cost to the district of district-owned buses not in excess of 10 percent per year. School districts are required to account separately for these funds and their expenditure is limited to the acquisition of new buses or transportation equipment.

#### Local Revenue

SB 814 requires certain sources of local school district revenue to be deducted from the school district's State School Fund grant.

Those revenue sources include:

- Property taxes actually imposed within the limits of Measure 5;
- Property tax offsets primarily consisting of timber severance tax receipts;
- Receipts from the Common School Fund;
- Receipts from the County School Fund;
- 25 percent of Federal Forest Fees required to be distributed to schools;

- Receipts from Chapter 530 state-managed forest lands;
- Funds received by a school district from an equalization ESD (Grant, Wallowa and Wheeler);
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Now that value appeals will occur after the first payment of property taxes, with the

potential for refunds of property taxes already paid, school districts and other taxing units may experience some reduction in property tax collections as a result.

**Tax Payments and Refunds**—HB 2550 retains current timelines for the payment of property taxes (in full by Nov. 15 or one-third on Nov. 15, Feb. 15 and May 15) with the 3 percent discount available for full payment by Nov. 15. School districts and other taxing units can expect to receive their property taxes on essentially the same schedule as they currently do. Under the provisions of HB 2550, taxpayers who appeal their property values may pay less than the full amount of property taxes due and may apply any potential reduction in their property taxes to future payments. Taxpayers may also pay their property taxes due in full and be entitled to refunds, with interest, if their appeals are successful.

HB 2550 authorizes the county treasurer to establish a refund reserve account separate from the unsegregated tax collections account. The refund reserve account will consist of a portion of current property tax collections equal to anticipated property tax refunds for the county. The purpose of this reserve account is to make property tax refunds without drawing on property taxes already received by schools and other taxing units.

This act also allows larger refunds, those exceeding \$250,000 or one-quarter of one percent of total county tax bills, to be spread out over a five-year period.

HB 2550 makes no changes to current provisions requiring the removal of disputed property value from the tax roll when that value exceeds one-quarter of one percent of the total value of the county.

**Special Assessments**—HB 2550 applies Measure 5's property tax rate limits to certain properties' specially-assessed value rather than their real market value, as defined by Measure 5. The affected properties are farm land, forest land, open-space land, historic property and property entitled to a veterans' exemption.

This provision will result in less property tax being collected from these properties than would otherwise be collected if Measure 5's rate limits applied to the properties' higher real market values.

The property tax loss to school districts, ESDs and community colleges will increase the state's property tax loss replacement obligation under the provisions of Measure 5.

**Urban Renewal**—HB 2550 makes a number of changes in the statutes governing urban renewal or tax-increment financing to conform to the provisions of Measure 5.

Most significantly, this act imposes the