Until 1987, Oregon law allowed school districts to close if voters did not approve tax levies adequate to fund operations for an entire year. In May 1987, Oregon voters approved an amendment to the state constitution designed to prevent school closures. The amendment established a "safety net" for school districts with inadequate tax bases by authorizing them to levy up to the same amount in property taxes for operating purposes as the year before.

On May 16, 1989, Oregonians will vote on Ballot Measure 1, which would authorize new tax bases for 100 school districts and 2 Educational Service Districts (ESD's). Passage would activate legislation to provide additional tax relief to certain taxpayers, provide additional state aid to some districts, and help fund special education of severely handicapped students.

This publication explains the main features of Ballot Measure 1 and associated legislation, and the effect passage would have on school property taxing authority, local control, school property tax relief, and state aid to schools.

How are schools currently funded in Oregon?

Property taxes are the major revenue source of Oregon schools, providing 57% of total revenues in 1987-88. The other major revenue source is state aid from the Basic School Support Fund, which accounted for 22%. A district has authority to levy property taxes equal to its tax base, which is permanent authority to levy property taxes each year. If levied, the tax base automatically increases up to 6% each year.

Almost two-thirds of Oregon's 303 districts operated within their tax bases during the 1988-89 school year. The other one-third had inadequate tax bases; that is, they were not able to pay the costs for operating an entire year with the amount of money provided by their tax bases and other revenues. They either received approval for temporary operating levies or fell into the "safety net."

The safety net allows districts that do not receive voter approval for new tax bases or temporary operating levies to levy, outside their tax base, an amount equal to their total operating levy the preceding year. In return for this "safety net" taxing authority, districts agree to operate a standard school (as defined by the State Board of Education) for the entire school year with the revenues available. In addition, they agree not to submit any further operating levy requests to voters for that school year and not to increase expenditures through supplemental appropriations.

In 1987-88, 38 districts used the safety net. In 1988-89, this figure increased to 48, as 2 of the original districts continued in the safety net for a second year and 27 more districts entered the safety net.

What are the main provisions of Ballot Measure 1?

Ballot Measure 1 would authorize new tax bases for 100 school districts, including all 48 safety net districts, and 2 ESD's. A school district's tax base for 1989-90 would be one of the following amounts: (1) the district's 1988-89 tax base plus 6%; (2) its highest operating levy of the last 3 years plus 6%; (3) its safety net levy plus 6% for each year in the safety net; (4) its operating levy approved for 1989-90 by district voters prior to July 1, 1989.

Most districts presently operating within their current tax base would continue to increase their existing tax base 6% and would not get a new tax base. Most districts now operating outside their tax bases (including 1988-89 one-year safety net districts) would get new tax bases 6% higher than their current operating levies. All two-year safety net districts would get new tax bases 12.36% higher than their 1988-89 safety net levies (12.36% equals 6% compounded for 2 years).

Any district receiving voter approval before July 1 for 1989-90 operating levies outside the base could use the total approved operating levy as its 1989-90 tax base if it were to the district's advantage to do so.

Ballot Measure 1 would require any school district that receives new tax base authority under the measure to adopt a resolution by September 1, 1989, indicating how much of that authority it intends to use. The amount it declared in this resolution would become its 1989-90 tax base. The measure would authorize a maximum of $26.5 million statewide in new tax bases for 1989-90 if fully levied.

Ballot Measure 1 also deals with ESD's and mergers. The ESD's in Grant, Harney, Wallowa, and Wheeler counties levy a property tax and distribute part of it to each of the

Bruce A. Weber, Extension economist, Oregon State University.
Steve Meyer, Oregon Legislative Revenue Office, provided consultation and assistance.
How would the measure affect local control?

Oregon citizens exercise local control of schools by (1) electing (and sometimes recalling) school board members who ultimately adopt budgets and set school policy, (2) serving on school budget committees and testifying at budget hearings, and (3) voting on new tax bases or temporary levies submitted to them by school boards.

Ballot Measure 1 would affect this third aspect of local control by authorizing new tax bases in one third of Oregon’s districts without local voter approval. If it passes, the new tax bases would build on amounts previously authorized by local voters as temporary levies.

How would passage affect property tax relief?

Passage of Ballot Measure 1 would trigger legislation that would provide two new programs of tax relief:

1. Beginning in 1989-90, the state would provide an offset to property tax levies in school districts that have high property tax rates but not high spending per pupil. (An offset reduces the tax levy of a district, thus lowering the tax rate and tax bill for district taxpayers.) For districts that spend at or below the state average per student, the offset could reduce the operating tax rate to a “target” tax rate. For 1989-90, the target rate would be $11.50/$1,000 assessed value. For high-tax-rate districts that spend above the state average per student, there would be a smaller offset or none depending on spending per pupil. The offset would reduce property taxes for about 66 districts by an estimated $6.6 million in 1989-90.

2. Beginning in 1990-91, the state would begin a new program of “education property tax” relief for homeowners. Education property taxes are those of school districts, ESD’s, and community colleges. After subtracting Homeowner and Renter Residential Property Tax Relief Program (HARRP) payments, the state would pay “homeowner education property taxes” that exceed 5% of household income. This relief would apply to the first $60,000 of household value.

For those with incomes under $5,000, the state would pay education property taxes that exceed proportionately lower percentages of income. For example, the state would pay education property taxes exceeding 2% of income for homeowners with incomes of $2,000.

This new program would reduce homeowner property taxes by an estimated $20.3 million in 1990-91. Most (78%) of the relief goes to homeowners in areas where the combined education tax rate is more than $18.70/$1,000 assessed value.

Beginning in 1990-91, HARRP relief to homeowners would, in most cases, no longer be paid by check but would be applied directly to reduction of property taxes. Thus, relief for homeowners under both HARRP and the new homeowner education tax relief would appear as a tax reduction on the property tax statement. HARRP renter relief would still be paid by check.

How would passage affect state aid to schools?

The legislation triggered by passage of the ballot measure includes three provisions that would affect state aid to schools:

1. The formula for distributing the Basic School Support Fund would be suspended for 2 years. Under the current complex formula, grants fluctuate from year to year and are unrelated to student numbers. Under the new formula, each district’s 1989-90 basic grant would increase from its 1988-89 level by the percentage change in the Portland Consumer Price Index adjusted to reflect increases or decreases in enrollment.

2. Those districts that would be better off under the old formula would continue to receive Basic School Support Fund aid based on that formula in 1989-90. The legislation would provide an estimated $10.7 million in additional basic grants to pay for this in 1989-90.

For 1990-91, all districts would receive the amount of the 1989-90 grants adjusted for inflation and enrollment changes.

3. The legislation would require the state to increase its contribution to the education of severely handicapped students. Among other things, it would provide $17.2 million for the 1989-91 biennium to reimburse districts for about 50% of the excess cost of educating trainable mentally retarded students. It would also provide $16.5 million for regional programs to serve deaf, blind, orthopedically impaired, and autistic children.

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