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Oregon School Funding

Assessing the Options

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Contents

As school buses in the Brookings-Harbor School District roll along the coast highway, they bring children to schools where an average of $2,591 was spent to educate each of the students in the district in 1987-88.

Upstate, in the foothills of the Cascades south of Eugene, students in Pleasant Hill School District received an education that cost $4,736 per student, almost twice as much (table 1).

Some consider it unfair to students that those who live in different parts of the State should have such different levels of financial resources available for their education.

Taxpayers in these districts paid quite different amounts of property taxes to support their educational programs. It cost the owner of a $60,000 house in Brookings-Harbor $399 to finance local schools, but the owners of a house of equal value in Pleasant Hill paid $1,697 in school taxes.

While it may not be sound policy to allow these differences in taxes across districts, the taxpayers in Pleasant Hill who paid higher taxes "received" a more adequately funded education for students in their district.

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OREGON STATE UNIVERSITY EXTENSION SERVICE

Table 1.—Interdistrict disparities in spending and school property tax rates for selected medium-sized unified districts, Oregon, 1987-88

Spending range	Low tax rate	High tax rate
Low spending	*Brookings-Harbor* (1,418 students) $2,591/pupil $6.65/$1,000	*Fern Ridge* (1,755 students) $3,781/pupil $20.61/$1,000
High-spending	*Morrow County Unit* (1,683 students) $4,802/pupil $8.85/$1,000	*Pleasant Hill* (1,187 students) $4,736/pupil $28.28/$1,000

Oregon's tradition of local control supports two key ideas: Taxpayers should have a say in determining local service levels, and those who are willing to pay more should receive more.

However, because of wide differences among districts in wealth (assessed valuation) and nonproperty tax revenues (such as Federal and State forest revenues), higher school taxes do not ensure higher spending for pupils.

Owners of a $60,000 house in Boardman, for example, paid $531 in taxes to the Morrow County Unit School District to finance spending $4,802 per pupil in 1987-88. The owner of a house of equal value in Fern Ridge spent $1,237 to provide an educational program with significantly lower spending per pupil ($3,781). Many feel that taxpayers are treated unfairly in a system like this.

Is Oregon's school finance system unfair to taxpayers and students? Is the system unbalanced, as some critics charge—are property taxes too high? Does the State provide too small a share of total school revenues?

And is the system unstable, when many districts (particularly the one-sixth of the districts in the so-called "safety net") don't have the resources necessary to ensure continuance of existing programs and routine maintenance?

This publication provides information for answering these questions and for evaluating alternatives for changing the system to address equity, balance, and stability. It has five sections:

Section 1 reports briefly on U.S. efforts to reduce interdistrict disparities in spending and taxing; section 2 outlines Oregon's current school funding system; section 3 discusses criticisms that the system is unfair, unbalanced, and unstable; section 4 lists commonly supported goals for school finance reform; and section 5 outlines policy options for changing the system (including proposals of the Governor's Commission on School Funding Reform) and provides some criteria for assessing the options.

The national context

During the past two decades, many states have actively pursued school finance reforms. Awareness of educational disparities between rich and poor school districts was fueled by the 1971 California Supreme Court decision in *Serrano* v. *Priest*. This decision, plus lawsuits in other states, led many states to make major revisions in their school financing systems, including changes in levels of State support and in distribution formulas.

Oregon did not make major changes in its system to reduce disparities in spending and taxes among districts during this period—in part, because of the outcome of *Olson* v. *State of Oregon*.

In this 1975 case, the Lane County Circuit Court decided that disparities in school spending and tax rates among districts did not violate provisions of the Oregon Constitution requiring the State Legislature to "provide by law for the establishment of a uniform, and general system of Common schools" (Article VIII, section 3). In 1976, the Oregon Supreme Court affirmed the ruling.

While the inequity issue generally received less nationwide attention in the 1980's than in the 1970's, disparities still exist in many states, including Oregon. Nationwide concern about such disparities appears to be increasing again. Within the past year, court cases involving inequities in finance between rich and poor districts have been pending in at least eight states. In Montana, the State supreme court found that the inequities violated the State's responsibilities to provide adequate schooling.

Oregon's current school finance system

Oregonians place a high value on education. Because of their financial support for schools, the State ranked 14th in the Nation in spending per pupil in 1987-88 (table 2). The system for financing schools, which depends heavily on local property taxes, permits a great deal of local citizen control in financial and program matters. And Oregon students "perform very well in national tests" *(Small Steps to a Distant Goal)*.

The school funding system in Oregon depends primarily on local property taxes and a State aid program funded mainly by an income tax (figure 1). The Federal Government provides only 5% of Oregon school revenues.

Table 2.—Oregon school rankings, 1987-88[a]

Category	Oregon	Oregon rank	U.S. average
Current spending per pupil	$4,574	14	$4,216
Number of pupils per teacher	16.9	14	16.3
Average teacher salary	28,060	19	28,044
Average pupils per district	1,391	n/a	2,420
Local revenues	67%	4	44%
State revenues	27%	48	50%
Federal revenues	6%	24	6%

[a] Source: National Education Association, *Rankings of the States, 1988*. *Note:* Reporting errors and definitional differences between states make it advisable to use these numbers with caution.

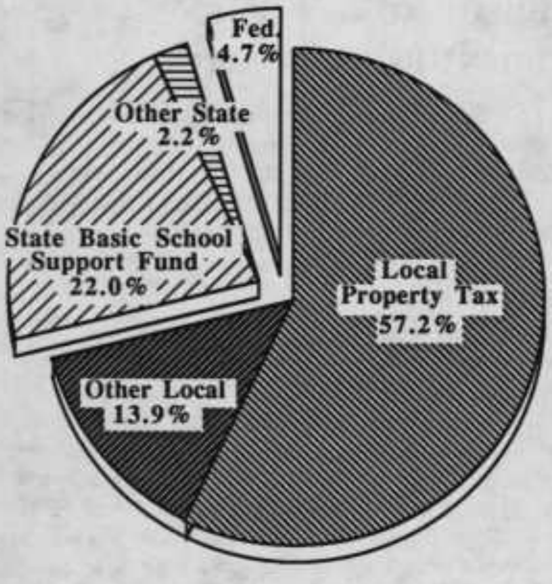

Figure 1.—Estimated sources of revenue for Oregon schools, 1987-88 (source: Oregon Department of Education, 1987)

More than two-thirds (71%) of expected school revenues come from local sources. Of that two-thirds, property taxes provided four-fifths of local school revenues. Other local revenues include earnings on investments, rentals, school lunch sales, and tuition from other districts.

State government provides 24% of total school revenue. More than 90% of this is provided from the Basic School Support Fund (BSSF, see righthand column). State aid to schools provides a small share of school funding relative to other states. According to the National Education Association, Oregon ranked 48th in the Nation in the percentage of State support, in 1988.

Property taxes

There are three important points to note regarding property taxes and Oregon schools:

1. Property taxes are the single most important source of Oregon school revenues, providing over one-half of the total.
2. Property taxes in Oregon are high because schools depend so much on property taxes and because schools require large public expenditures.
3. Oregon's constitutional limitation on property taxes requires voter approval of property tax levies under certain conditions.

Unlike many other states, Oregon's basic property tax limitation applies to the dollar amount levied, not to the tax rate. The Oregon Constitution limits the dollar amount of a district's levy to its tax base (a tax base is permanent authority given by voters to levy a specified dollar amount of property taxes).

If fully levied, this amount may increase up to 6% a year without further voter approval. To levy outside the 6% limitation, a local government must receive voter approval. Local governments without tax bases must seek voter approval every year for the entire amount of the property tax levy.

One important exception is that school districts are allowed to impose safety net levies without voter approval. A 1987 amendment to the Oregon Constitution allows districts with inadequate tax bases to levy an amount equal to the previous year's total operating levy (even if this levy is outside their tax base) if voters do not approve by September 30 a levy providing enough revenue to operate schools for the full year. Unlike tax bases, safety net levies aren't allowed to increase 6% per year.

Basic School Support Fund

The BSSF was created in 1946 by voter initiative to provide adequate, stable funding for schools; to reduce reliance on property taxes; and to reduce interdistrict disparities in taxes and spending. Money for the BSSF comes from the State general fund, financed primarily by the State personal and corporate income taxes.

BSSF is distributed in three major components: the basic grant (including adjustments for growth and decline in enrollments), equalization, and transportation (we'll explain how each component works). In 1987-88, 62% of the BSSF was distributed to districts as basic grants and only 27% as equalization. The remaining 11% went to districts as transportation grants.

Basic grant

Every Oregon district receives a basic grant as a uniform percentage of the district's "approved program cost." Expenditures for instruction, administration, health, attendance, operation and maintenance, and fixed charges are included in the calculation of approved program cost. Expenditures for transportation, food service, student body activities, community services, capital outlay, and debt service are excluded.

There's a limit on the approved program cost. The 1987-88 limit was $2,796.74 per pupil. Because eligible costs in about 90% of the State's districts were above this limit, in 1987-88 most districts received $708.91 (the maximum per-student basic grant). Some small, isolated districts are given more than this amount.

Equalization grant

A district receives this grant if it would not receive enough revenue to cover its approved program cost from nonproperty tax revenues (including the basic grant, Common School Fund, and Federal forest revenues) plus what the district could raise by taxing itself at the State-specified equalization rate.

Those districts with high assessed value per student or considerable Federal forest revenues don't receive equalization aid. About two-thirds of Oregon's school districts receive equalization grants.

Figure 2 illustrates how the basic grant and equalization portions of Oregon's BSSF work in low-, medium-, and high-wealth districts. For the low- and medium-wealth districts in this example, a tax rate of $9.50/$1,000 plus the basic grant will not provide enough revenues for the "approved program" expenditure per student. The State equalization grant makes up the difference.

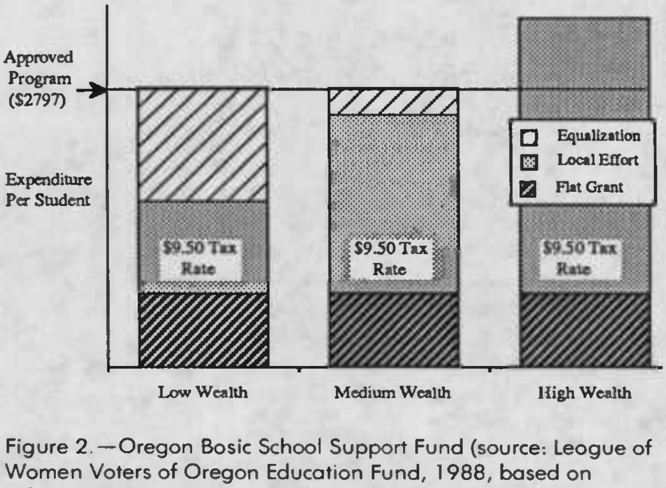

Figure 2.—Oregon Basic School Support Fund (source: League of Women Voters of Oregon Education Fund, 1988, based on information provided by the Legislative Revenue Office)

The high-wealth district receives no equalization grant because the revenue produced by a tax rate of $9.50/$1,000 plus the basic grant exceeds the "approved program" expenditure per student.

Transportation grant

Each district receives this grant as partial reimbursement for transportation expenditures of the previous year.

Criticisms of current funding system

The current Oregon school finance system is widely criticized as flawed on four counts: It's unfair to students; it's unfair to taxpayers; it's unstable and inadequate for many districts; and it generates high property taxes.

Unfair to students

The system generates wide differences among districts in spending per pupil. Per-pupil spending in Oregon for 1987-88 ranged from $2,241 to $19,461 (table 3). In some districts with low spending per pupil, the amounts available for spending may be inadequate to provide a basic education.

Some of the difference is due to district size—it's very expensive, per student, to provide schooling in districts with very few students. There were 9 districts in Oregon with fewer than 10 students in 1987-88 and 28 more with 10 to 50 students. Another factor is variation in the local voters' willingness to tax themselves for schools.

Yet another critical factor determining differences in per-pupil spending is variances in wealth and non-property-tax resources among districts. Per-pupil assessed value (total assessed value of the school district divided by the number of students) is a measure of the taxable property a district has to support each student. Per-pupil assessed values in 1987-88 ranged from a low of $86,776 to a high of $1,528,232 (table 3).

Table 3.—Oregon school finance: some basic statistics, 1987-88[a]

Indicator	Lowest district	Average (mean)	Highest district
Current expenditure per pupil	$ 2,241	$ 4,011	$ 19,461
Assessed value per pupil	$86,776	$190,347	$1,528,232
School district tax rate ($/$1,000 assessed value)	$ 3.83	$ 15.50	$ 28.92

[a] Source: Oregon Department of Education, 1988.

Adding to the problem is out-of-date property assessments in many counties. This means children who live in property-poor districts or districts with out-of-date assessments are denied the same opportunities as those who live in rich districts.

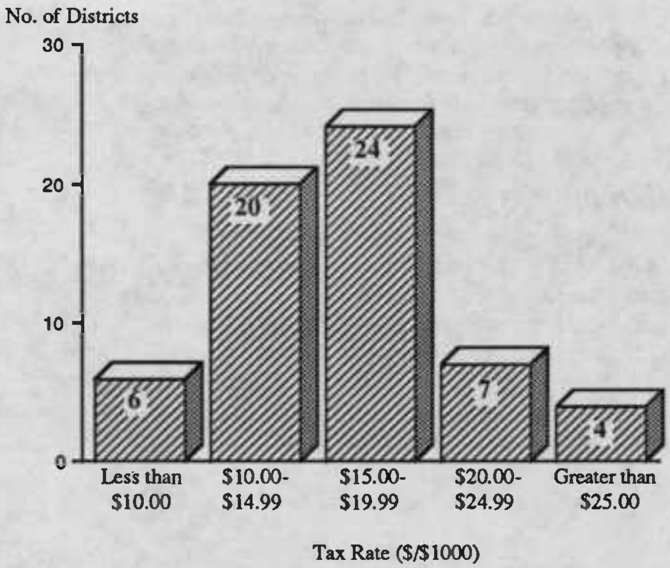

Figure 3.—Variations in tax rates among the 61 unified districts that spent $4,001-$5,000 per pupil (source: Oregon Department of Education, 1988)

Unfair to taxpayers

Because of differences among districts in wealth and non-property-tax revenues and because the State's equalization program is small relative to these differences, the system generates wide differences among districts in the property tax rates needed to finance the same expenditure per pupil.

Oregon has three types of school districts—elementary (elementary education only), union high (secondary education only), and unified (both elementary and secondary education). Because average spending per student differs among these types, our discussion will focus on unified districts, which represent 60% of all districts and educate 87% of Oregon's students.

Unified districts tax at greatly different rates to achieve the same spending per pupil (figure 3). Of the 61 unified districts that spent between $4,001 and $5,000 per pupil in 1987-88, for example, four taxed at rates above $25 per $1,000 of assessed value while six others levied property taxes of less than $10 per $1,000.

It's regarded as unfair to taxpayers when taxpayers in poor districts must pay higher property taxes than taxpayers in rich districts to achieve the same levels of spending per pupil.

Unstable/inadequate funding in many districts

In districts without tax bases or with tax bases regarded as inadequate, the system creates a great deal of budgetary uncertainty and, in some cases, inadequate revenues to maintain existing programs or facilities. In such districts, teachers and administrators sometimes don't know what level of funding will be available until after the school year begins. This means they're unable to determine the programs or the number of teachers they'll be able to fund.

Uncertainty about funding levels in these districts affects the quality of education in at least two ways: Qualified teachers may choose to work in more stable districts; and administrators and faculty spend effort preparing for levy elections that could be spent on educational programs.

The problem of uncertainty is compounded in districts where voters don't eventually approve temporary levies or new tax bases. In some cases, failure to approve tax measures means the district has insufficient revenues to provide bus service or perform routine maintenance on existing facilities.

This problem is acute in one-sixth of the Oregon districts that operate under the safety net ("Property taxes," page 3). In 1988-89, Oregon had 48 districts in the safety net; 21 school districts have operated under this structure for 2 years with no increase in taxes.

High property taxes

The system's heavy dependence on property taxes results in high levels of property taxes. Although Oregon's total State-local tax burden is about average (see "Change the State-local tax structure," page 8), Oregon ranked fourth in the Nation in property taxes as a percent of personal income in 1985-86. High property taxes are a major factor in voter dissatisfaction and in continued interest in property tax limitation measures in this State.

Goals for school finance reform

Commonly supported goals of school finance reform in Oregon include:

1. Reduce the uncertainty/inadequacy in districts with inadequate tax bases.
2. Reduce the disparities among districts in resources available.
3. Reduce the disparities among districts in property taxes necessary to support equal expenditures.
4. Increase State support.
5. Reduce property taxes.

Goal 1 can be approached by updating all school tax bases.

Goals 2 and 3 can be achieved either through increasing the amount of State aid given for equalization or through alternative distribution formulas for State school aid, or both.

Goals 4 and 5, in practice, require finding a revenue source to partly replace the property tax in financing Oregon's schools.

Goals 2 through 5 are interrelated. Significant reductions in interdistrict disparities will be possible only by increasing State aid to schools. Significant increases in State school support will require changes in the State's tax structure.

Unless the State is willing to make major cuts in State programs, goals 2 and 3 can't be achieved to any significant extent without a tax to replace part of the property tax.

Policy options for school finance reform

Table 4 provides an overview of the policy options discussed in the report and shows how each set of policy options relates to the five goals we've just outlined. In each case, the option of retaining the current system is included. Choosing this option implies that achieving the goal through one of the other options requires too great a sacrifice.

Change the property tax system

Update tax bases

The Governor's Commission on School Funding Reform, in its September 1988 report, recommended authorizing new tax bases for all districts currently operating outside their bases.

Districts currently operating within their tax bases could continue increasing their current base by 6% a year.

Districts operating outside their tax bases (but not in the safety net) would receive new tax bases equal to their current operating levy plus 6%.

Districts in the safety net would receive a new tax base equal to the safety-net levy plus 6% for each year in the safety net.

The commission also recommended that districts be prohibited from submitting to voters requests for temporary operating levies during 1989-91, and that the legislature provide $150 million in property tax relief to taxpayers to offset school property taxes during 1989 and 1990.

Change State aid to schools

State aid to schools can be distributed either on a categorical basis (allocating money for specific purposes) or through noncategorical distribution formulas.

Most State aid is noncategorical aid from the Basic School Support Fund, given to all school districts on a formula basis. The Oregon BSSF formula provides basic grants to all districts and equalization grants to many districts to reduce disparities in per-student spending related to disparities in property wealth and nonproperty tax revenues.

Table 4.—Oregon school funding reform, goals and policy options

Goals	Policy options: Change property tax system	Change State aid to schools	Change State-local tax structure (partly replace property tax)
1. Reduce uncertainty/inadequacy in districts with "inadequate" tax bases.	Update property tax bases. Keep current system.		
2. Reduce interdistrict disparities in spending. 3. Reduce interdistrict disparities in tax rates necessary to support equal expenditures.		Increase equalization using current foundation program formula.[a] Replace current equalization formula with a "percentage equalization" plan.[a] Keep current system.	
4. Increase State support. 5. Reduce property taxes.			Increase income tax. Adopt sales tax. Adopt gross receipts tax. Adopt value-added tax. Keep current structure.

[a] Choosing either of these options would require an increase in State support, which would likely require a change in the State-local tax structure (see the righthand column).

Increase equalization with current formula

As we noted on page 3, the amount of money appropriated by the Oregon Legislature for equalization is only about 27% of the BSSF; the BSSF provides only about one-quarter of school operating expenditures. As a result, Oregon's State school aid program has not succeeded in equalizing disparities in taxes and spending between poor and rich districts to a very great extent.

If more State aid went into equalization or if there were a different equalization formula—or both—the wide interdistrict disparities in spending per pupil and in tax rates could be reduced.

Introduce a percentage equalization formula

The current BSSF basic grant/equalization grant formula could be replaced with a percentage equalization formula. This would allow districts taxing themselves at the same rate to spend the same amount per pupil. Figure 4 shows how such a plan would work.

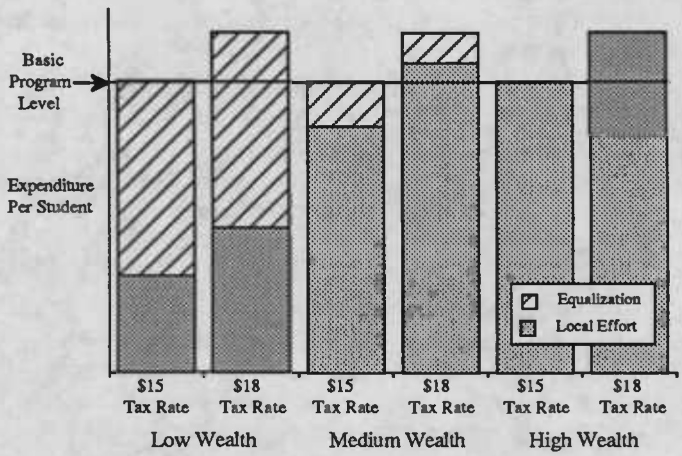

Figure 4.—Percentage equalization (source: League of Women Voters of Oregon Education Fund, 1988, based on information provided by the Legislative Revenue Office)

In this example, if low-wealth districts wish to receive the basic program level, they could tax themselves at $15 per $1,000 and receive the amount in the lighter-shaded area as State aid. If they wish to tax themselves at $18 per $1,000, they could receive more State aid above the basic program level.

High-wealth districts that tax themselves at $15 per $1,000 wouldn't get any State aid. According to a 1988 League of Women Voters of Oregon Education Fund report, such a plan has these advantages:

1. It equalizes the ability of school districts to raise money at a given tax rate "while preserving their control over the amount they wish to spend."
2. It provides an incentive for districts to offer more than a minimum program (by taxing at a higher rate, a district receives more revenue from the State as well as from local taxpayers).

However, The League of Women Voters points to a potential disadvantage: The State could lack control over its education budget. In practice, most states with such programs set limits on the funding they'll provide.

Governor's commission recommendations

The Governor's Commission on School Funding Reform made three short-term (1989-91) recommendations about the distribution of state school aid:

1. suspend the Basic School Support Formula for the next 2 years, by increasing each district's 1988-89 total BSSF grant according to the Consumer Price Index and adjusting for student enrollment changes;
2. target $30 million to selected school districts with high tax rates and/or low spending per pupil; and
3. provide an additional $30 million for educating severely handicapped children.

For the long term (1991 and beyond), the commission recommended that the State develop a percentage equalization formula to decrease inequities in taxing and spending among Oregon districts.

Change the State-local tax structure

Widespread and long-standing concern that Oregon's tax system is unbalanced and unfair because property taxes are too high has involved policy makers in an ongoing search for a tax source to replace part of the property tax.

If an adequate replacement tax were found, property taxes could be reduced and the State could increase its support of schools without an increase in the overall level of State and local taxes.

Most states look to three sources of tax revenue to fund State and local governments. In 1985-86, three taxes provided about 80% of all State-local tax revenues (figure 5):

1. property tax (30%),
2. individual and corporate income tax (25%), and
3. general sales tax (24%).

Selective sales taxes, gift and inheritance taxes, severance taxes, and other minor sources supplied the remaining 21%.

States that use only two of the major taxes must rely more heavily on these two than other states do. Oregon is one of five states in the nation without a general state sales tax; the others are Alaska, Delaware, Montana, and New Hampshire. Figure 5 shows that in Oregon, State-local tax revenues come primarily from property taxes (45%) and income taxes (35%).

Because Oregon relies on property and income taxes, the State ranks high nationally in various tax indicators. On a per capita basis, Oregon's property taxes were 8th highest in the country, and income taxes per capita were 10th highest. Because Oregon's per capita income is below the national average, the State's rankings on the basis of percent of personal income were even higher (table 5).

When one looks at total State-local taxes, however, Oregon's tax burden appears average: Oregon places 23rd among states on a per-capita basis and 19th as a percent of personal income.

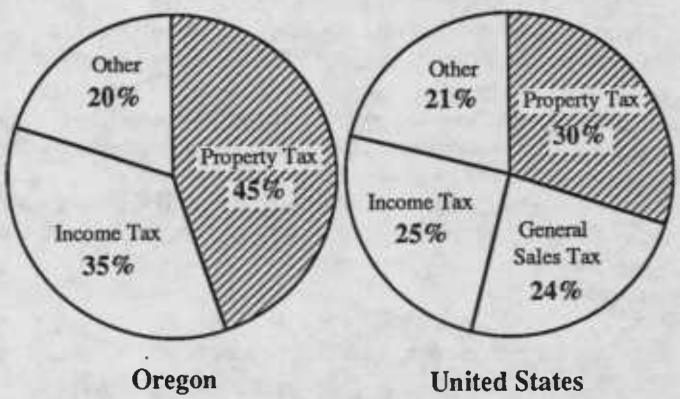

Figure 5.—Sources of State-local tax revenue (source: U.S. Bureau of the Census, 1987)

Table 5.—Oregon State-local taxes, 1985-86[a]

	Dollars per capita			% of personal income		
	Oregon	Oregon rank	U.S. average	Oregon	Oregon rank	U.S. average
Property tax	$ 651	8	$ 463	5.2	4	3.4
Income tax	502	10	391	4.0	8	2.9
Total State-local taxes[b]	1,436	23	1,547	11.4	19	11.3

[a] Source: Advisory Commission on Intergovernmental Relations, 1988.
[b] For the United States, total State-local taxes include (in addition to property and income taxes) sales taxes, excise taxes, gift and inheritance taxes, and severance taxes. For Oregon, the additional taxes include (among others) insurance taxes, gift and inheritance taxes, franchise taxes, and hotel-motel taxes.

Some commonly accepted features of a desirable tax system are that it should:

- provide adequate revenues;
- provide revenues that are predictable and cyclically stable (not greatly affected by upturns and downturns in the economy);
- be fair by taxing those in similar circumstances equally (economists call this "horizontal equity");
- be fair by taxing those with more income at a higher rate (economists call this "vertical equity");
- be subject to popular control;
- not discourage economic development; and
- be "balanced" in the sense that no single tax is unacceptably high.

A replacement tax should be evaluated according to how it affects each of these characteristics of the overall Oregon State-local tax system.

Attention generally focuses on four taxes to replace part of the property tax in Oregon: income tax, sales tax, gross receipts tax, and value-added tax.

Increase income tax

Alternative ways to increase the personal income tax include:

1. add a surtax (an additional percentage to the regular tax);
2. increase the tax rate by 1% in each of the three tax brackets; and
3. eliminate the deductibility of Federal income taxes on the State income tax.

See table 6 for the revenue impact of each of these alternatives.

Table 6.—Revenue produced by selected tax changes that could partially offset property taxes[a]

Tax change	1987-88 ($ million)	% Reduction in property taxes possible with tax change[b]
Personal income tax increases		
1% surtax	$ 15	0.7
Increasing tax rates by 1% in each tax bracket	191	9.4
Repealing Federal tax deduction	139	6.8
Sales tax		
1% rate with low-income tax credit and food, drugs, utilities, and rent exemptions	185	9.1
Gross receipts tax on business, 0.5%	400	19.6
Value-added tax, 1% (Michigan-type)	160	7.8

[a] League of Women voters of Oregon Educational Fund 1988, based on information provided by the Legislative Revenue Office; Oregon Department of Revenue Research Office, unpublished data on property taxes.
[b] Figures in this column are the percent by which total 1987-88 property taxes could have been reduced by instituting each of the tax changes and using the entire revenue from this change to reduce property taxes. For example, if the $160 million receipts from a 1% VAT had been used to reduce property taxes, property taxes could have been reduced 7.8%.

Sales tax

The sales tax continues to be discussed as a possible replacement for the property tax, even though Oregon voters have rejected eight sales tax proposals. A general sales tax could be imposed on all sales of goods and services.

In practice, most states tax only goods, and they exempt necessities (food, rent, utilities, and drugs) to make the tax less of a burden on low-income persons. Some states also provide an income tax credit or a refund to low-income taxpayers.

Gross receipts tax

This is a tax on the full value of goods, at each transaction as they pass from producer to retailer. A number of states employ such a tax. Washington imposes this tax (called "a business and occupation tax") on retailers (at a rate of 0.47% of gross receipts), manufacturers (0.48%), and service industries (1.5%).

Establishing this tax in Oregon at a 0.5% rate would have yielded about $400 million in 1987-88. Using this tax to reduce property taxes without repealing the corporate income tax (which yields about $150 million annually) would shift the initial burden of State-local taxes toward businesses and away from individuals. Such a situation could make Oregon less attractive for business.

The gross receipts tax has been criticized as unfair because firms with production involving numerous transactions with other firms would pay a higher tax than a similar business performing the different production stages within the firm.

Value-added tax

A value-added tax (VAT) is a tax on the value a business adds to its product or service (the value of business output minus the cost of inputs purchased from other businesses). It avoids the inequity of the gross receipts tax between multistage businesses that are integrated vertically and those that are not. Michigan, the only State to use this tax, imposes a 2.35% VAT that includes a number of exemptions, deductions, and credits.

If it had been fully phased in, a 1% Michigan-type Oregon VAT would have yielded $160 million in 1987-88. If this tax were adopted without repealing the corporate income tax, business would bear an increased share of the initial tax burden, and corporate taxes would increase relative to other states. If the corporate income tax were repealed, the adoption of a 1% VAT would produce almost no new revenue.

Assessing alternative taxes

Each of the four alternative replacement taxes would raise substantial revenues at average rates.

By replacing part of the property tax, all four would increase predictability of revenues currently subject to voter approval.

All replacement taxes are more sensitive to the business cycle than property tax and would reduce the cyclical stability of the overall tax system.

The impact on horizontal and vertical equity of implementing a sales, value-added, or gross receipts tax would depend on the exemptions and credits built into the system. Increasing income taxes probably would increase vertical equity of the system.

By substituting a State tax for a locally-controlled property tax, any of the four taxes would tend to reduce local control, in the limited sense of voter ability to vote on property tax increases.

Increases in the income tax probably would have some negative effect on economic development in this State. To the extent that Oregon moves toward the top of U.S. rankings for State income tax burden and that people see Oregon as a high-tax State, Oregon might become less attractive to corporate decisionmakers.

It's difficult to assess the impact on the economic development climate in Oregon of partly replacing the property tax with any of the other taxes.

All of the alternatives (except the income tax increase) would balance the system by moving Oregon lower in national rankings on tax burdens for the property tax without changing its nationwide ranking for the income tax. Increasing the income tax to reduce property taxes would increase Oregon's already relatively high position on the income tax, but reduce its position on the property tax.

The Governor's Commission of School Funding Reform recommended an increase in State support and a decrease in property taxes without recommending how this should be funded. The commission report identified these potential revenue sources: increasing income tax rates by 3%, a 3% sales tax, a 3% value-added tax, a 0.5% gross receipts tax, or a 4% tax on vehicle value.

Summary

Achieving the goals of a fairer, more stable school funding system that depends less on property taxes involves three sets of interrelated policy choices:

1. whether to update all school tax bases;
2. whether to change the Basic School Support Fund formula or spending levels; and
3. whether to replace part of the property tax with a new tax or increased income tax.

The policy decisions made by Oregonians on taxes and school funding will affect the adequacy, stability, and fairness of the State's educational programs; the adequacy, stability, fairness, and balance of Oregon's tax structure; the State's economic development prospects; and Oregon's tradition of local control.

Questions for discussion

1. The fact that one-third of Oregon's 303 school districts seek voter approval for levies outside their tax bases and one-sixth are in the safety net is cited as evidence that the system is unstable. Do you agree? What are the effects of this kind of system on school districts, students, and taxpayers? Would updating tax bases eliminate problems of instability?

2. The current Oregon BSSF grant program is intended to reduce the disparities in tax rates needed to finance the approved program. Why doesn't it go very far toward achieving this objective? Should the approved program level be higher (more than the current 90% of the statewide average per-student expenditure)? Do you think the equalization grants ought to provide equal program for equal effort (as under a percentage equalization grant program)?

3. Should each student in the State have an equal educational program? Does equal program require equal spending per student? What factors might cause one district to have to spend more per student than another district to deliver an equal program? How would you define equal program for purposes of a percentage equalization formula?

4. Property taxes in Oregon are relatively high because schools depend on them for more than half their revenues. Do you believe property taxes are too high? If there were greater equalization among districts in tax rates necessary to fund equal spending, would there be a need to reduce property taxes? Could greater equalization be accomplished without an increase in State support?

5. Some people propose to reduce property taxes by increasing income taxes on individuals, by imposing a sales tax on goods (and perhaps services) sold at the retail level, or by imposing on businesses a gross receipts tax or a value-added tax. Do you favor finding a replacement tax for part of the property tax? Do you favor taxing individuals or businesses? Which of these taxes would you find most acceptable as a way of reducing property taxes?

6. By replacing the property tax with any of the other taxes and using the proceeds to fund education, some people fear that local control of taxes and educational programs would be diminished. Do you agree? In your opinion, would such a loss of local voter control over property taxes be a bad thing? What ways do citizens have to control taxing and spending besides voting on property tax levies? How effective are these other mechanisms in influencing educational programs and taxes, in your opinion?

For further reading

Oregon School Finance: A Tax Primer, League of Women Voters of Oregon Education Fund, Salem, Oregon, 1987. Single copies of this and the next title are available at no charge from: League of Women Voters of Oregon, 189 Liberty St. NE, Room 307, Salem, OR 97301. Include $2.50 per copy for postage and handling.

Oregon School Finance: Solving the Dilemma, League of Women Voters of Oregon Education Fund, Salem, Oregon, 1988.

Small Steps to a Distant Goal, Governor's Commission on School Funding Reform, Salem, Oregon, 1988. Single copies are available at no charge from: Richard Munn, Director, Oregon Dept. of Revenue, 457 Revenue Bldg., Salem, OR 97310.

Weber, Bruce A., *A New Tax Base for Your Local Government?* Oregon State University Extension Service publication EC 1269 (Corvallis, 1988). No charge for single copy; order from Agricultural Communications, Publications Orders, Administrative Services Bldg. 422, Oregon State University, Corvallis, OR 97331-2119. If you want to place a quantity order, phone (503) 754-2513 for a price quote.

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