

FINANCING PUBLIC EDUCATION:

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Statewide Solutions or Local Options?

Oregonians care deeply about the quality of education in Oregon, as evidenced by passage of the most challenging educational standards in the nation in 1991. Yet, ironically, over the last five years, weighted, per-student spending for K-12 school districts statewide has decreased by approximately 15%.¹ As class sizes have grown and programs have been cut throughout the state, schools find it difficult to meet existing requirements and impossible to plan for their future. To

prevent a continuing downward spiral to educational mediocrity, the funding of our schools must be stabilized at levels that provide the resources we need to demand academic excellence through a rigorous academic program that equips students with the information and skills necessary to pursue the future of their choice.² If a statewide solution is not found, then our only option may be to fall back on local solutions for our children's sake.

Ballot measures 5 (1990) and 47 (1996) have dramatically changed school funding in Oregon. Previously, approximately 73% of the school budget was funded by local property taxes and 27% was funded by state sources³. As a result, there were tremendous funding inequities among Oregon's school districts. Spending ranged from less than \$3,000 per student to more than \$7,000⁴ per student. Measure 5 shifted school funding responsibilities to the Oregon Legislature. By 1996, more than 66% of the school budgets were funded by the state⁵. Under Measure 47, the state contribution may become as high as 85%. Measure 5 also directed the Legislature to move toward funding all districts equitably. Most new funds have been distributed to low-revenue districts ("equalization districts"). Other districts have been largely flat-funded, with a 5% cut in 1993-94 and no increases to compensate for inflation. As a result, the system is far

Marianne Fitzgerald, Jane Ames and Francie Royce are three Portland mothers who co-sponsored a ballot initiative in the summer of 1996 seeking to raise the Multnomah County Business Income Tax (BIT) to fund local schools. They suspended their campaign when local elected officials and business leaders agreed to work with them toward a statewide solution, or to enact the BIT if state funding is insufficient.

more equal now than it was before Measure 5, but at a significant cost to the flat-funded districts⁶. Budget cuts in some districts resulted in massive layoffs of both administrative personnel and teachers, and massive cuts to music, physical education, math, science, social studies, English, sports, and other school programs.

Many Oregonians concerned about edu-

We need to make a quality education a service provided to all Oregonians.

cation had one thought on their mind at the beginning of the 1997 legislative session: how can we ensure adequate funding for all Oregon schools for the 1997-99 biennium and beyond? Gov. Kitzhaber's proposed "investment budget", which relies on retaining and using surplus income tax revenue (the "kicker")

for education, still falls short of the current service level. Under Kitzhaber's best "investment budget", school districts such as Portland, Eugene, Lincoln City, and Enterprise face layoffs of hundreds of teachers and cuts in most programs. The governor recently proposed adding \$200 million to his investment budget for education, but recognized that a few districts, including Portland, "will still not be made whole".⁷ To prevent layoffs in all districts statewide, an additional \$350 million is needed above the Governor's original investment budget (or a total of \$5.75 billion for K-12 education) to rebuild programs and effectively plan for the rest of the 1997-99 biennium⁸.

As of the end of March, 1997, the Oregon Legislature had not agreed on the funding level for education for the 1997-99 school years. Parents, teachers, and school



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administrators cannot make plans for the next school year, because there are uncertainties about the funding levels. This situation is unacceptable to us, as parents. All Oregon schools must be fully funded if they are to provide academically challenging and diverse programs. At a time when Oregon's economy is booming and income tax revenues are at record levels, it is penny-wise and pound-foolish not to invest some of the revenue into Oregon's future, its children.

Governing bodies throughout the nation have traditionally relied on three funding sources for public education: property taxes, income taxes, and sales taxes. Lottery funds may also be used for school general operating revenue, but Oregon's lottery revenues have been declining over the past two years⁹. Oregonians soundly rejected using a sales tax to fund education in 1993, and severely limited growth in property tax revenue through passage of Measures 5 and 47. That left only the income tax as a viable option to fund schools.

Some interesting changes in state revenue sources in recent years need to be highlighted as Oregonians consider statewide and local solutions to school funding. The text of Measure 5 made changes in how property taxes are assessed. Since 1990, rapid growth in residential assessments has shifted the total property tax burden away from business to individuals. Residential property tax burdens have increased by 19.3%, while commercial property tax burdens have decreased by 29.4% over the past six years. Residential property owners now pay an estimated 66% of the total property taxes, compared to only 54% in 1990¹⁰. This shift in property tax burden is now frozen by passage of Measure 47, which caps property taxes at the 1994-95 amount, or the 1995-96 amount less 10%, whichever is less.

Businesses have also seen decreases in the amount of income taxes paid in recent years. A ballot measure approved by voters in 1979 limited the growth in government spending to forecast levels. If actual revenues exceed forecasts by more than 2%, then the entire amount is to be returned to taxpayers. Twice since 1979, the "kicker"

moneys have been retained by the state and used to cover spending shortfalls. Four times since 1979, the "kicker" moneys have been returned to taxpayers. In 1995, individuals received a 6% refund and corporations received a 50% tax credit¹¹. As a consequence, businesses enjoyed

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a significantly reduced tax burden in 1996 over previous years, while individuals' tax burdens have not decreased proportionately.

As the 1997 Legislature struggles with finding revenue sources to fund schools, it scrutinizes tax revenues and spending needs. Both the Governor and the Legislature have agreed to backfill local property tax shortfalls for schools under Measure 47. State income tax revenues currently exceed forecasts by approximately \$444 million¹², yet the Republican leaders remain firm in their resolve to not use this money for education, but instead return it to the taxpayers. If they are not able to provide a stable source of funding at the \$5.75 billion considered adequate to fund schools, then we are left with no choice but to rely on a local option to maintain the quality of education in our local schools.

Corporate income taxes are currently assessed statewide, but an additional county Business Income Tax (BIT) is an option available to Home Rule Counties to provide supplemental funding to improve local programs. In the spring of 1996, as Multnomah County school districts faced the layoff of hundreds of classroom teachers, Multnomah County Chair Beverly Stein proposed to increase the existing BIT by 1% per year for 18 months as a way to temporarily supplement school funding until the 1997 Legislature acted. When she was unable to obtain enough votes on the County Commission to enact it, three of us parents had had enough. We decided that if politicians could not fund

education, then we would go to the people ourselves. Rather than wait for someone to solve our problems, we took what we felt was a reasonable approach and filed an initiative petition.

A coalition of school supporters helped with the initiative. Oregon Fair Share, the Portland Association of Teachers, the Portland Organizing Project, the Rainbow Coalition, Portland Citizens for Oregon Schools, Oregon Students Supporting Education, and dozens of parents from throughout Multnomah County helped collect signatures to enable the BIT to be brought to a vote of the people. Most importantly, a coalition of over 100 local businesses publicly stated their support and urged their customers to sign the petition in recognition of the importance of a well-educated workforce. Citizens were very receptive toward a school funding mechanism which returned part of the tax burden to businesses.

Although the BIT is a local option, all of its supporters recognized that the most equitable solutions to Oregon's school

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funding crisis needed to be found in the state Legislature. On July 22, 1996, consensus was achieved among the Multnomah County Commission, the Portland City Council, and the Portland Chamber of Commerce, that seeking a statewide solution was the preferred choice. BIT supporters gathered to witness the signing of an agreement which stated that if statewide school financing to the 1995-96 levels is not forthcoming by June 15, 1997, then the Multnomah

County Commissioners will enact a local BIT to address budget shortfalls in Multnomah County school districts. The agreement was in the form of a letter from Mayor Vera Katz; City Commissioners Charlie Hales, Gretchen Kafoury, and Mike Lindberg; County Chair Beverly Stein; and County Commissioners Dan Saltzman, Tanya Collier and Gary Hansen, to Governor Kitzhaber, Senate President Gordon Smith, and House Speaker Bev Clarno, dated July 22, 1996. This letter was also endorsed by City Council candidates Eric Sten, Jim Francesconi, Chuck Duffy, and Gail Shibley on October 21, 1996. Now, under Measure 47, all tax increases must be referred to a vote of the people. This referral would not be made until after June 15, 1997, under the BIT agreement.

The Multnomah County BIT is levied on net income and is progressive. At present, the BIT is equal to 1.45% of the net income earned by a business within Multnomah County. Businesses with a gross income of less than \$15,000 are exempt from the BIT. Businesses may deduct 75% of their net income before owner's compensation up to \$50,000 for a sole owner, or \$50,000 per partner or controlling shareholder for partnerships and corporations, before the tax is applied. This means, for example, that a sole business owner will pay the BIT on only one quarter of his net income up to approximately \$66,667, and therefore only the largest businesses will face any significant increase in tax with a BIT increase.

As a result, 65% of the businesses in Multnomah County would either pay nothing or less than \$100 in increased taxes under this measure.¹³ Currently, 30% of the businesses in the

county pay no tax at all and another 35% pay less than 2% of the total BIT collected. In 1994-95, out of approximately 38,000 businesses in the County, about 67% of the total business income tax collected was paid by businesses constituting about 2.4% of all the payers. Based upon 1994-95 actual collections, a temporary increase in the BIT of 1% would yield about \$18,800,000 in revenue dedicated to schools for each year of the increase. Whenever the economy is robust, as it is now, these collections would increase somewhat.

Our highest priority is a stable, adequate

Our highest priority is stable, adequate funding for all public schools in Oregon.



LAUREN TAYLOR

funding source for all public schools in Oregon. Full equity will enable all of Oregon's children to achieve the high

standards embodied in state law. The layoffs and decline in the classrooms over the past few years have been unacceptable, and we must now work toward building programs for the future. We call upon the state Legislature to provide \$5.75 billion which will provide the resources to achieve the high standards embodied in state law. But if that funding is not forthcoming, then we encourage counties throughout Oregon to explore the options available to them locally to achieve our vision. In Multnomah County, we will seek the BIT to achieve our goals.

We need an educated workforce if we are to attract high-wage businesses to Oregon. We need an educated citizenry to achieve high levels of community participation. We need to make quality education a service provided to all Oregonians. We have seen school budgets decline and we have seen major programs cut throughout the state. We must provide stable funding at \$5.75 billion statewide to achieve both our equity and quality goals. If these funds are not forthcoming from the budgets approved by the Oregon Legislature and Gov. Kitzhaber, then we will consider local options such as the BIT to protect our children's future.

1 The *Oregonian*, "Raise School Funding Bar", Feb. 17, 1996, p. C6.

2 ORS 329.015.

3 Legislative Revenue Office, *The Current State and School Revenue Picture*, Research Report #2-96, April 30, 1996.

4 Legis. Revenue Office, *State School Fund Distribution*, April 30, 1996.

5 See note 3.

6 See note 3.

7 Governor Kitzhaber's speech to the Portland City Club, March 14, 1997.

8 Confederation of Oregon School Administrators, *Summary Of Consensus Positions Of OASE School Funding Coalition*, Jan. 31, 1997. This figure is also supported by the Coalition for School Funding NOW!

9 See note 3.

10 Tax Supervising and Conservation Commission newsletter, Oct. 1996, page 4.

11 Legislative Revenue Office transparencies, *Oregon Taxes Overview*.

12 The *Oregonian*, "Rosy Revenue Forecast Might Benefit Schools", Feb. 28, 1997, and "The Year Could Have a Real Kick to It", March 9, 1997.

13 *Financial Impact On Your Business of a Temporary Increase in the County Business Income Tax to Support Portland Area Schools*, prepared by the "A Little BIT for Schools Goes a Long Way" Committee, May 1996.