



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

FINANCING K-12 EDUCATION IN OREGON

*Bruce A. Weber
Oregon State University*

Oregon has set in motion a very ambitious educational reform program at precisely the same time that it is shrinking its tax system and rapidly equalizing school spending. It is hard to imagine a more chaotic educational policy environment. And in November, Oregon voters are faced with several initiatives that could further change the fiscal landscape in Oregon.

This paper has two objectives: 1) to describe the system of K-12 education and education finance in Oregon, focusing on the impacts of four major policy shocks set in motion in the last five years; 2) to identify four school finance policy questions that face voters and legislators during the coming year.

Financing K-12 Education in Oregon

Since 1989, Oregon has initiated four shifts in educational and tax policy that are having a major impact on the organization, educational goals and financing of Oregon schools.

Equalization

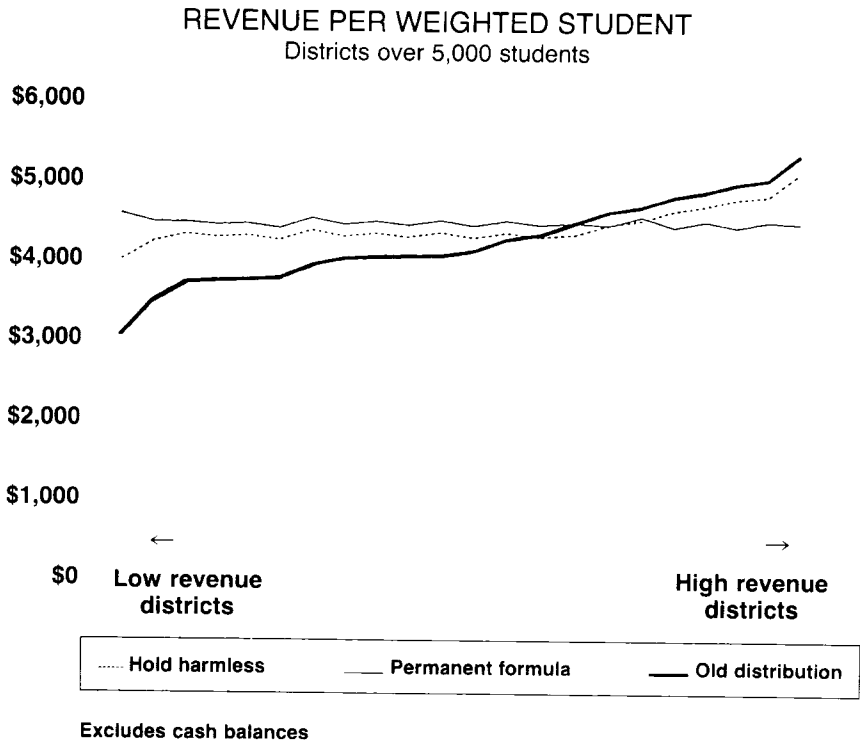
In 1987-1988, the average current expenditure per pupil in Oregon was \$4,011. Around this mean was a range of \$17,220 in spending from \$2,241 to \$19,461 (Weber). Large disparities in per pupil spending were one of the issues addressed by the 1988 report of the Governor's Commission on School Funding Reform.

The 1989 legislature addressed this issue by developing a state school fund distribution formula that essentially equalizes spending per student (Figure 1).

Because immediate implementation of the formula would have required very large decreases in school aid to some districts, during implementation, the legislature imposed caps on individual district gains and losses in funding per student. Because of the severe impact of full equalization on some large districts, the legislature has not put the full funding formula into effect yet.

Nonetheless, significant progress toward equalization has been made in the last seven years. Average operating revenues per student in Oregon in 1994-1995 are projected to be \$4,184. The range in

Figure 1. Oregon's Equalization Formula



Source: Legislative Revenue Office

projected revenues per student is \$7,692 (\$3,842 to \$11,534), less than half of the earlier range (Legislative Revenue Office, 1994a). Most districts are now within 10 percent of the state average (Oregon School Boards Association). Even though the 1987-1988 figures are not strictly comparable with the 1994-1995 figures,¹ the conclusion that the range in revenues per student has been halved in the past seven years is an accurate portrayal of Oregon's progress toward equalization.

Measure 5

In November of 1990, Oregonians passed Ballot Measure 5, an initiative that places new limits on property taxes and requires the state general fund to replace lost property taxes for schools during the five-year phase-in period.

The limit on school property tax rates phases in from \$15.00/\$1,000 assessed value in 1991-1992 to \$5.00/\$1,000 in 1995-1996. During the first two years of Measure 5 implementation, school property taxes

statewide declined 5 percent. This reduction varied among districts depending on the local rate of growth in assessed values and on how high rates were prior to Measure 5. Figure 2 shows that school property taxes generally increased in the fastest growing regions of the state and decreased elsewhere. By 1995-1996, it is projected that school operating property taxes will be about half of what they were in 1990-1991, prior to Measure 5's passage (Legislative Revenue Office, 1994b).

Given the modest Measure 5 replacement requirement in the 1991-1993 biennium (about \$500 million in a \$5.9 billion budget) and a significant growth in general fund revenues generated by a rapidly growing economy, the state moved aggressively toward equalization in spending per student during the first two years of Measure 5 implementation. State school aid increased 80 percent and per pupil expenditures increased 12 percent between 1991-93 (Hill and Weber). An attempt to hold high-spending districts harmless led to large increases in state aid in some districts and no district receiving less state aid than it had received before. Figure 3 shows spending per pupil increased most dramatically between 1991-1993 in the rural areas of the state.

Although Measure 5 required the state general fund to replace lost school property taxes, it did not require the state general fund to continue the same level of "basic school support," the other major source of school funding besides the property tax. (In 1990-1991, prior to Measure 5, the state provided about one third of school general operating revenues, and the property tax two thirds). Thus, while the property tax plus replacement revenue for schools continues to grow since Measure 5, the nonreplacement part of state aid is declining as it competes in the state general fund with state services.

Indeed, in 1993-1994, total school operating revenues declined 5 percent because increases in state aid were not large enough to offset declines in school property taxes.

Measure 5 has transferred to the state general fund the major burden of financing K-12 education in Oregon. In fiscal year 1994-1995, state aid will provide 56 percent of school operating revenue and property taxes only 44 percent (Legislative Revenue Office, 1994a).

Changes in Curriculum and Structure

The 1991 legislature, which convened two months after the passage of Measure 5, passed the Oregon Educational Act for the 21st Century, an ambitious strategy for providing "the best educated citizens in the nation by the year 2000, and a work force equal to any in the world by the year 2010" (Oregon School Boards Association).

This bill replaced the state's requirements for "common curricu-

Figure 2. Percent Change in School and ESD Property Tax, FY 91—FY 93

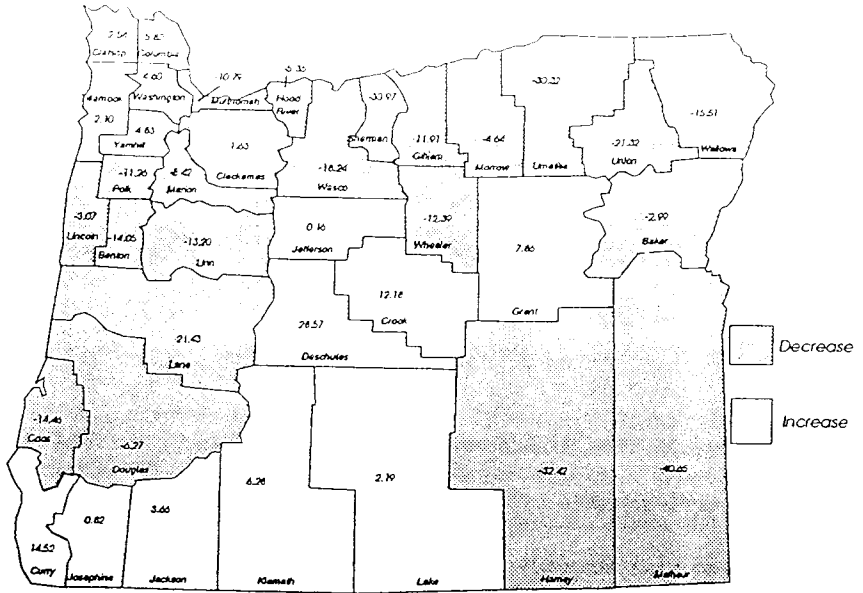
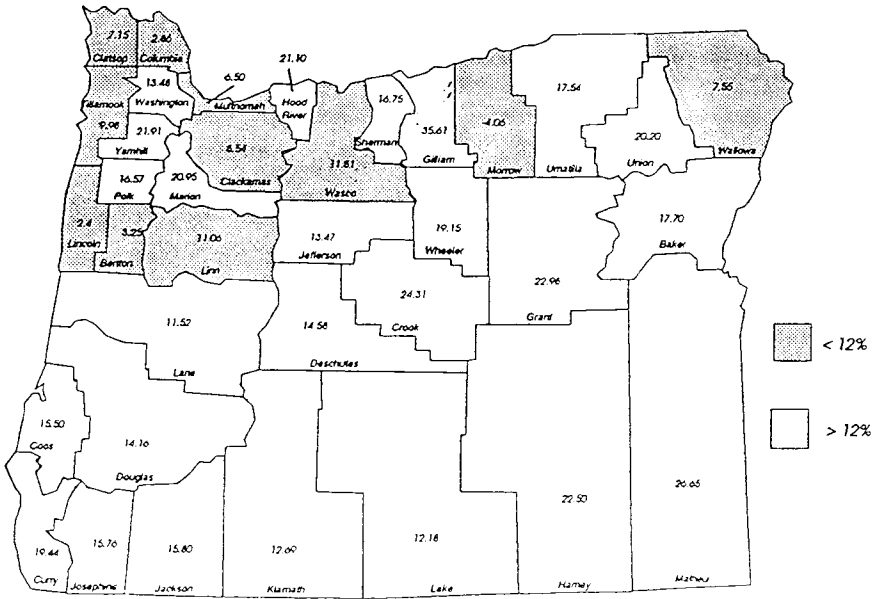


Figure 3. Percent Change in Per-Pupil Expenditure, FY 91—FY 93



Source: Hill and Weber

lum goals” and “essential learning skills” with new “outcome based requirements” demonstrating mastery of specific knowledge and skills necessary to attain “Certificates of Initial Mastery” after the traditional 10th grade. During the traditional 11th and 12th grades, programs will be offered to help students achieve outcomes required for a “Certificate of Advanced Mastery” in one of six “endorsement areas”: arts and communications, business and management, health services, human resources, industrial and engineering systems, and natural resource systems.

At the same time school districts are attempting major curriculum reform, many smaller districts are being required to consolidate. The 1991 legislature enacted SB917, which will reduce the number of school districts from 295 in 1992-1993 to 178 by 1996-1997.

Summary

During the past five years, Oregon has set in motion a set of fundamental changes in state policy that will radically affect schools. It has: 1) reduced property taxes without increasing other taxes in a way that will reduce state/local taxes as a share of income from 12.1 percent of personal income in 1991 to 10.3 percent in 1996; 2) shifted to the state the major responsibility and essentially all the decision making about school funding; 3) moved rapidly to equalize school spending per student among districts while keeping the overall level of school spending relatively constant, thus triggering large spending increases in some districts and declines in others; 4) set up an ambitious curriculum reform agenda without allocating much in new resources to implement it while requiring a simultaneous major restructuring of school districts.

Current Oregon School Finance Policy Issues

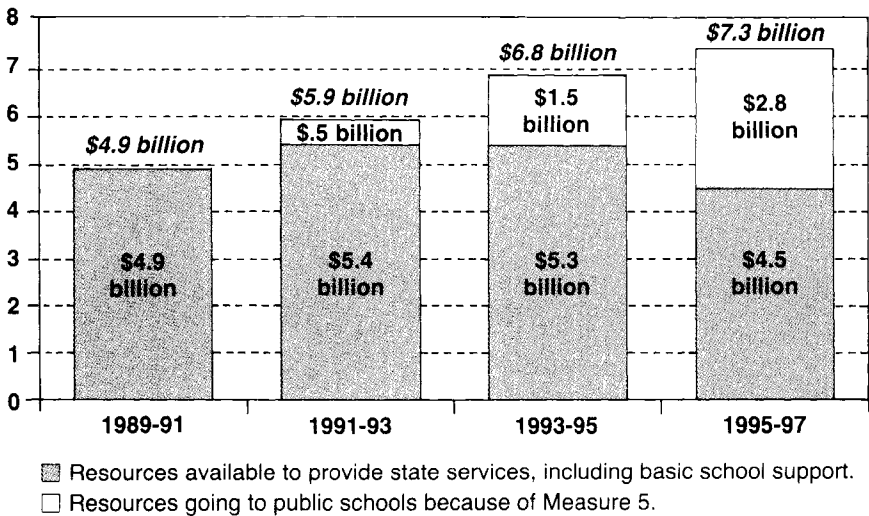
These policy decisions of the past five years have set up a challenging agenda for the 1995 legislature. This agenda is likely to be affected by several initiatives on the November ballot that would have a major impact on their budget choices.

The Fiscal Context

Figure 4 illustrates the fiscal context within which the 1995 legislature will operate. The state general fund finances state services (such as higher education, human services, corrections) and school aid. As Measure 5 rate limits have phased in for schools, the “replacement requirement” has increased from \$.5 billion in 1991-1993 to \$2.8 billion in 1995-1997. Think of this as the money schools need to be “held harmless” in their “property tax revenues.”

What is left in the state general fund (gray shading) is what is available for school support and for state services. Between

Figure 4. The Impact of Measure 5 on Oregon's General Fund Resources



Source: Oregon Department of Administrative Services

1991-1993 and 1993-1995, this amount has decreased by \$.1 billion, not adjusted for population growth or inflation. It will decrease in 1995-1997 by an additional \$.8 billion. Absent additional taxes, the state will have to cut current spending on state services and/or school support in the next biennium.

There are four major policy questions affecting education facing Oregon voters and legislators: 1) How much should the state spend for schools? 2) How much equality in school funding is desirable? 3) What curriculum best prepares students for citizenship and the workforce? 4) What level of taxes is required to support desired public services and schools?

How Much for Schools?

The 1995-1997 state general fund will have \$800 million less than in the current biennium to fund schools and state services. It will have about \$1.0 billion less that it would need to provide current service levels to the 1995-1997 Oregon population. A fundamental choice facing the Oregon legislature is how much of the cuts to take from K-12 education.

Oregon voters have the opportunity in November to make this choice for the legislature. Measure 15, called "Kids First" by its proponents and "Some Kids First" by opponents, would require the state legislature to fund schools and community colleges at no less than the 1993-1995 base amount, plus adjustments for inflation and

enrollment changes. Passage of this measure would force deep cuts in state programs unless taxes were raised.

How Much Equality?

The Oregon legislature has established a policy of equal spending per student across all districts. Because moving to that goal would require large cuts in traditionally high spending districts, the state has resisted putting the formula fully into effect. Even if Measure 15 were to pass, full equalization would require large cuts in some districts. Failure of Measure 15 will make full equalization even harder.

There is some question about how tight the relationship is between spending and educational outcomes (Fisher) and, thus, about whether increasing school spending is an effective way of improving education in low-spending districts, or whether cutting spending hurts educational outcomes in high-spending districts.

There are strong political pressures, however, not to require further cuts in the large urban districts. At the same time, low-spending districts are threatening court action if the state does not implement its equalization formula in the next legislative session.

What Curriculum?

As parents and educators are beginning to realize the implications of Oregon's curriculum reform, there is growing resistance in some quarters to the changes. It is likely there will be challenges to the reform in the next legislature. At issue is what kind of curriculum best prepares students for lifelong learning, citizenship and the workforce.

How Much in Taxes?

Oregonians face two November ballot measures on taxes: 1) prohibition of new or increased taxes without voter approval; 2) substitution of a 2 percent tax on all transactions for all current taxes, probably reducing total tax revenues in Oregon.

Even if neither of these measures passes, Oregon's tax burden will shrink as Measure 5 completes its five-year phase-in, from its current level of 11.5 percent of income (placing Oregon around the middle in a ranking of the fifty states) to its projected 10.3 percent in 1996 (placing Oregon around 40th in this ranking).

Recent Oregon survey research shows that Oregonians are profoundly distrustful of elected leadership (only one in ten believes state elected officials can be trusted to do the job they are elected to do) and believe there is enormous waste in government (the average estimate of survey respondents was that 32 percent of state spending is wasted) (Sahr and Steel). In this kind of political climate, Orego-

nians are unlikely to vote for large tax increases to prevent Oregon tax burden from shrinking.

Ultimately the question facing Oregonians is whether we can achieve our statewide goals under our current tax system—whether, by taxing ourselves at 10.3 percent of our income, we can have the public services we desire and the level of public education that prepares our students for productive work and citizenship.

NOTES

1. The "current expenditure per pupil" figures available for 1987-1988 are not strictly comparable to the "operating revenues per weighted student" figures in 1994-1995. Special education students and those with English as a second language are weighted more than other students, making the number of "weighted students" about 16 percent greater than the number of "pupils."

REFERENCES

- Fisher, Monica. "Does education spending matter?" *Perspectives*. Corvallis, OR: Oregon State University Ext. Serv., Summer, 1994.
- Hill, Kenneth B., and Bruce A. Weber. "State and Regional Impacts of Measure 5 and School Equalization: Local Property Taxes, State Spending, and School Aid." Paper presented at the 28th annual Pacific Northwest Regional Economic Conference, Seattle, WA, 1994.
- Legislative Revenue Office. *The Current State and School Revenue Picture*. Res. Rep. 1-94, Salem, OR, 1994a.
- Legislative Revenue Office. *What's Going On With Oregon State and Local Finance?* Salem, OR, 1994b.
- Oregon School Boards Association. *Covering Education: A Reporter's Guide to Education in Oregon*. Salem, OR, 1994.
- Sahr, Robert, and Brent Steel. *Pacific Northwest Survey of State Government Issues*. Corvallis, OR: Oregon State University Program for Governmental Research and Education, 1993.
- Weber, B. A. *Oregon School Funding, Assessing the Options*. Oregon State University Ext. Serv. Circular 1329, Corvallis, OR, 1989.