This paper describes the development of school finance reform in Oregon from 1968 through legislative enactments in 1973 and proposals for the voters in 1974. The first section describes the 1973 school finance reform proposal, rejected by voters, as it was originally submitted (whereby the State would have assumed 95 percent of the operating costs of the local schools in Oregon.) The proposal's provisions for raising State and local school revenue and tax relief, its effect on selected school districts, and its legal implications are examined. A supplementary paper describes the three phases of State school finance reform legislation approved in 1973. The first phase provides for adjustments in both personal and corporate taxes and in property tax relief. A proposed constitutional amendment to provide for structural changes in school district financing constitutes phase two. The third phase represents a legislative proposal that, if passed by the voters, will provide for changes in the personal and corporate tax rates to provide for 50 percent State support of public elementary and secondary education. This portion of the presentation also describes the impact of the proposed legislation on selected school districts and compares the new laws and proposals with previous reform attempts. (Author/DN)
ANALYSIS OF STATE SCHOOL FINANCE REFORM LEGISLATION PROPOSAL IN OREGON

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"ANALYSIS OF STATE SCHOOL FINANCE REFORM LEGISLATION"

1973 PROPOSAL IN OREGON

By Robert G. Davis
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Section A.

Background:

Three major efforts were made in Oregon since 1968 to reduce the tax on real property. Two of the proposals -- brought to the people by initiative -- were for a property tax limitation. The third proposal -- presented by the Legislature -- was to institute a general sales tax. All of these failed. The basic reasons for the failure of these programs were that the property tax relief envisioned by the programs would have been primarily for business, or that the proposed limitations on property taxes would have been detrimental to the schools, or both.

Oregon pioneered the initiative, referendum and recall, so these have a tradition in the state. The Oregon Constitution prohibits revenue measures adopted by the Legislature from taking effect until 90 days after adjournment. The purpose is to allow the citizens to review the legislation and to force a public vote on the question through referendum. In recent years the Legislature has adopted the position that it is more desirable to order the referendum on major tax questions, rather than to require the citizens to obtain the signatures necessary to force the question onto the ballot.

The property tax limitation measures referred to above were submitted by initiative of the people. The third measure, a general sales tax, was presented to the people by the Legislature for a vote in June, 1969. The sales tax was defeated 504,274 - 65,077, a ratio of rejection of more than 8-1.

The sales tax would have increased state support of the public elementary and secondary schools to approximately 55 percent of operating costs, compared to present support of just over 20 percent, and would have reduced property taxes. Public opinion surveys indicate the measure lost for these major reasons: A sales tax is not based on the principle of ability to pay; two-thirds of the property tax relief would have fallen to business; the measure was difficult to understand, largely because of the number of exemptions granted; and, it would have been a new general tax subject to increase by the Legislature.

The weight of public opinion remains heavily against a sales tax, foreclosing to Oregon the third leg of general taxation -- the other two major sources of revenue being the income tax and the property tax.

The income tax is not inveighed against at length. The property tax has become a burden for a variety of reasons. The principal reasons given by opponents of Oregon's property tax system are that the taxes applied have little direct relationship to the ability to pay, that the taxes may make property ownership prohibitive for some classes of the population, and that the burden of taxation is not applied equally in accordance with the State Constitution.

Of the two initiatives brought since 1968 to limit property taxes, the first, brought by a small group of homeowners, would have established a limitation on all property of 1 1/2 percent of true cash value. It was defeated primarily because business would have been the prime beneficiary, and because the public schools would have been hamstrung financially.

The second initiative, brought to the ballot in 1972 by the Oregon Farm Bureau Federation, narrowed the target and offered only a limitation on property taxes assessed for schools. Again, business would have received two-thirds of the tax relief, and the measure offered no alternatives for school financing. Proponents of this measure were quoted publicly as saying the Legislature could deal with the school finance problem. Had the measure passed, the Legislature would have been required to devise new taxes, which then would have been subject to referendum.

Oregon's political leaders of both major parties asked the voters to defeat this initiative, and pledged at the same time to develop a program offering both property tax relief and adequate financing for the schools. The measure was defeated.
Description of the Act:

The proposed Act would prohibit the levy of property taxes by local school districts except for $2 for each $1,000 worth of cash value for the purposes of equalization or enrichment. A state-wide property tax of $7.50 for each $1,000 cash value of non-residential property would be created. The state would assume approximately 95 percent of local school operating costs. (State-wide in Oregon, operating costs approximate 89 percent of total school costs.)

RESOURCES AND BUDGET

I. Provisions for Raising State School Revenue

No taxes are earmarked for school support. The effect of the Act, however, would be to give the public schools a lien on the State General Fund.

The following unearmarked taxes or tax changes are proposed to enable state funding of school operating costs:

-- A new uniform state-wide levy of $7.50 for each $1,000 of the market value of non-residential property. This levy is constitutionally limited by the amendment to $10 per $1,000 of value.

-- A new business profits tax. Profits up to $15,000 are exempt. The tax rate is 1 percent on profits between $15,000 and $75,000 annually, and 2 percent on profits over $75,000.

-- A change in corporation tax rates from the present 8 percent on financial institutions and 6 percent on all other corporations to a graduated scale of 4 to 9 percent.

-- A change in personal income tax rates from the present graduated scale of 4 to 10 percent to a new graduated scale of 5 to 13 percent.

-- A limitation of the Federal income tax deduction on the state income tax return. Only the first $2,000 of Federal tax paid may be claimed as a deduction.

-- Continuation of present General Fund support, plus addition of $130,000,000 from existing sources of revenue, including all of the state's portion of Federal revenue sharing dollars.
In January of 1972, Oregon Governor Tom McCall sent a memorandum to his Department of Revenue asking for recommendations on how best to revise the state school finance structure.

On March 29, 1972, the Governor conducted a news conference to outline his proposal for a new system of financing public elementary and secondary schools. The Governor asked the public to review his proposal and to suggest revisions. However, he said no changes would be acceptable if certain principles outlined by him were not followed. These principles are that the tax reform and school finance legislation must provide:

-- That taxation for school operating costs be based on the ability to pay.

-- That there be no shift in the tax burden from individuals to business, or from business to individuals.

-- That taxes on homes for school operating costs must be virtually abolished.

-- That taxes on non-residential property for school operating costs must be applied uniformly state-wide.

-- That constitutional limitations on property taxes for school operating costs must be applied.

-- That tax relief must be authorized for renters in lieu of property taxes paid.

-- That financing must be made available to provide every elementary and secondary school student an opportunity to gain an adequate education.

The proposal was the synthesis of the ideas of several individuals and groups, but basically was developed by the Governor and his staff. The Governor's program was presented formally to the Legislature on January 8, 1973. Legislators made revisions in certain revenue areas, but abided by the principles set forth by the Governor.

The Legislature proposed a constitutional amendment and enacted a law to become effective upon approval of the amendment. The election date was set for May 1, 1973.
State support of the public elementary and secondary schools would be increased from the present 20 percent to a new level of 95 percent of school operating costs.

II. Provisions for Raising Local School Revenue

Local school districts are authorized to levy, without a public vote, a maximum property tax of $2 per $1,000 of cash value of all property in the districts for any school purpose. The tax is optional, except that part or all of it must mandatorily be levied in some school districts spending more than $900 for operating costs per average daily membership. This rate may not be exceeded because it is constitutionally limited to the $2 rate.

All other local tax bases are eliminated, but a new transportation tax base is created by the Act. Intermediate Education District (county districts) tax bases are preserved.

The school districts are authorized to spend an amount equal to current per-student spending for operating costs, plus 6 percent for inflation. Districts spending below $900 per child may be authorized by the Superintendent of Public Instruction to advance to that level upon a showing of need. State general funds are authorized for this purpose.

The spending levels guaranteed by the state may be exceeded only upon levying by the local school district of a part or all of the optional levy of $2 per $1,000 cash value. If all of the optional levy must be levied by the district to maintain expenditure levels over $900 per student, then no additional tax may be levied and spending beyond present levels, plus 6 percent, is prohibited.

Local schools continue to have authority to levy taxes for the payment of bonded indebtedness and interest, for serial levies, for capital outlay and for their share of transportation costs (45 percent of the total). Any property tax levy -- except the previously described optional levy of $2 per $1,000 of property -- must be submitted for voter approval. Approval is contingent upon acceptance by the majority casting ballots in an election.

No debt limitations are provided.

Property tax administration remains with the assessors of the 36 counties, except for utilities and railways, which are assessed by the State Department of Revenue. Assessors will make judgments determining what is residential and what is non-residential property. Residential property is described in the Act as a homestead that is owner-occupied.
III. Local Tax Relief Provisions or Effects

Property taxes on homes will be reduced an average of 46 percent state-wide with approval of the Act. Property taxes on non-residential property will be reduced proportionally less, but will be smaller than under present rates in all except 19 of Oregon's 316 school districts.

Renters are given in lieu property tax relief of 9 percent of annual rent paid, minus utility charges.

Homeowners are given a state income tax credit of 10 percent of all property taxes paid.

Property taxes on inventories, livestock and farm machinery are abolished.

Cumulatively, approximately 85 percent of Oregonians will pay less total local, state and federal tax with approval of the Act. An estimated 6 of every 10 Oregon businesses also will pay reduced taxes.

Individual taxpayers will receive a total of $70,000,000 in tax relief. Business will receive a total of $60,000,000 in tax relief.

Low-income homeowners are entitled to property tax relief under present law. This law is continued, and is expanded to include low-income renters.

In general, labor-intensive business will pay higher taxes. Business with extensive property holdings will pay less taxes. Individuals in professional categories (law, medicine) generally will pay more. Middle-income wage-earners generally will pay less.

IV. The Effect of the Proposal toward Equalizing the Revenue Raising Ability of School Districts

The expressed intent of the Governor and the Legislature is to begin moving low-spending, poorer school districts upward to the level of the richer districts. The first step in the program is the authorization granted to the Superintendent of Public Instruction to increase spending to $900 per student by any district not now at that level.
The state guarantees spending of $900 by other districts and provides equalization, or matching grants, to districts spending up to $1,200 per student in the first year of the next biennium, and up to $1,250 in the second year of the biennium.

Placing restrictions on spending by the higher-spending districts and increasing spending authority for other districts at a faster rate in the future eventually will tend to equalize revenue for the schools. However, the Act does not specifically carry out this concept. Future Legislatures will be invited, however, to consider the intent of the 1973 Legislature to equalize spending.

In our opinion, no state except Hawaii has shown a capacity to bring the lowest-spending districts up to the level of the highest-spending districts immediately. In addition, the Governor asked that a strict Serrano-type principle not be followed because it would require reduced spending levels by many districts, thus tending toward mediocrity in all school districts.

DISTRIBUTIONS

The state guarantees that each district will have the capacity to maintain present per-student spending, plus 6 percent for inflation in each of the next two years. The state guarantees minimum support of $900 per student fulltime equivalent weighted, except districts now spending below that level first must prove a need to move to the $900 level.

Fulltime equivalent rated is the sum of the total resident pupils in grades 9 through 12 in the district, multiplied by 1.3, plus the total of the resident pupils in full-time equivalent in the district in the lower grades. Essentially, this authorizes approximately 30 percent higher per-student spending for secondary than for elementary schools.

Equalized grants are provided by the state to districts spending more than $900 per FTEW. The formula is applied in this way:

First the approved level of per-student spending is determined. Subtracted from this are estimated deductible receipts per FTEW. A basic state grant then is added to the deductible receipts to arrive at the approved spending level or $900, whichever is the lesser. A state equalization grant then is provided, along with money raised through use of part of the optional local levy, to raise any additional amounts needed.
The equalization grants vary to offset the differences in the true cash value of the districts. As an example, two districts spending $1,000 per student would be required to levy 9 cents of the local option tax. If the true cash value of the districts are at variance, then the district with the lesser value would receive a higher equalization payment from the state. The purpose here is to assure that taxpayers in districts spending equal amounts per student will pay an equal tax.

Deductible receipts are defined primarily as interest earnings, federal moneys, carryover cash balances, uncollected taxes and receipts from the state-paid common school fund.

An illustration of the formula may serve to illuminate the formula:

Approved operating expenditure per FTEW: $1,000

Estimated deductible receipts per FTEW: 300

Basic grant per FTEW: 600

(Total $900)

Equalization grant per FTEW: 90

Local option levy of 9 cents per $1,000: 10

Total: $1,000

Provisions for capital outlay, debt service and transportation are basically described previously in Section II of "Resources and Budget." However, it should be noted that the proposed Act requires the state to pay 55 percent of transportation costs, approximately the same as current levels. Local districts will pay the remaining 45 percent.

No provisions are made for salary schedules. The districts are provided with adequate financing from the schools, and they continue to negotiate with local education associations on salaries and other contract elements. Shifting of funding to the state level could bring pressure for state-wide negotiations on teacher salaries, but this is not required under the Act. Legislative authorization would be required.

A density provision is made through creation of a transitional grant fund for exceptional problems. A sparsity provision is made through a "small school correction fund."
In some districts, per-student spending for operational costs far exceeds state averages. The Act provides that these districts must automatically levy the entire $2 local option levy, and provides extensive state funding in addition to the basic grant and the state equalization grant.

The local school board must justify to the State Board of Education the continued existence of the small school because of physiographic conditions which make transportation to another school not feasible, or because of sparsity of population. Where a school's continued existence is found not to be justified because of its proximity to another school, benefits from the small school correction fund may be denied by the State Board of Education.

School district taxpayers in smaller, less efficient districts may be encouraged to consolidate their schools with one or more nearby districts to obtain the benefit of a higher combined true cash value, and thus the benefit of additional property tax relief. Consolidation or reorganization is not made mandatory, however.

An education contingency account is created by the Act to meet unforeseen emergencies, special problems created in school districts, and to bring low-spending districts up to the basic program level. Moneys from the account are apportioned by the Superintendent of Public Instruction with the approval of the Legislative Emergency Board, a joint House-Senate body serving during legislative interim periods.

Moneys in the education contingency account may be used for any of the following purposes: To institute a program and curriculum that is generally a part of school programs in other districts; to reduce class sizes to the state-wide average; to increase salaries to levels prevailing in the general area; to improve attendance and health services; to improve facilities; to provide special education services; and to provide equal educational opportunity, as defined by guidelines established by the State Department of Education.

Each school district must provide the Superintendent of Public Instruction with a copy of its audit statement within six months of the end of the fiscal year. The superintendent may correct errors in the apportionment of grants resulting from errors in estimates made by any school district. The superintendent also may adjust the estimate prior to any payment date during the school year. Payments will be made quarterly.
All schools are determined to be standard under State Board of Education guidelines unless found otherwise by the Superintendent of Public Instruction. Schools that do not correct deficiencies may be denied basic education fund money until a plan for correcting the deficiencies is presented.

State support for kindergartens is authorized for the first time under the terms of the Act. Districts with existing kindergartens may include kindergarten pupils in the distribution formula for full state support. Districts beginning kindergartens for the first time during the first two years of the approval of the Act are eligible for 50 percent support. The remaining 50 percent would come from application of the local option levy. This approach was taken to insure that local district patrons will be able to exercise an option as to whether a kindergarten program should be launched. All existing kindergartens were begun with voter approval of a financial commitment in earlier years.

OTHER RELATED PROVISIONS

As stated previously, teacher salary negotiations remain a function of the local school boards. Legislative action would be required to bring negotiations to the state level.

Educational accountability is assured, through present law, by establishment of basic program guidelines by the State Board of Education. Teacher certification and dismissal appeals are handled at the state level. Textbooks are approved by the State Textbook Commission. Schools may be denied state funds and, thus, the ability to operate if deficiencies are not corrected. The state establishes the minimum number of days per school year.

Local control of the schools is maintained by the local school boards. The state financial program will provide funding, but spending of the money is within the discretion of the local boards, subject to state guidelines.

The Act states: "It is declared to be the public policy of Oregon that the provision of education in elementary and secondary school districts is the right and responsibility of locally elected school officials. It is the purpose of this Act to strengthen the ability of each local school board to provide students with educational opportunities as determined by state goals and local needs, and to decrease the reliance upon the local property tax."
"Subject to applicable provisions of law the local school board has the right and responsibility to determine student needs, set goals, establish rules of governance, prescribe appropriate textbooks and instructional materials, levy taxes within the limits of this Act, allocate and manage resources, determine specifics of the curriculum, cooperate with the community in providing for community needs, establish personnel policies, inform parents and the community as to the effectiveness of the school program, develop and enforce student conduct and attendance rules, and establish policies concerning construction, control and operation of the physical plant."

This statement was advocated by Governor McCall, and is based upon a "Charter of Liberties" for local school boards outlined by New York Education Commissioner Ewald Nyquist in 1972.

A public opinion survey conducted in April, 1973, indicated that "local control" was a meaningful issue to less than 50 percent of Oregonians.

(End Section B)

III. Effect on Selected Districts

The latest figures available comparing the school districts' true cash value, levy and operating expenditures for resident pupils are for the school year 1972-73. The figures are presented for the purposes of comparison to show inequity in property tax levels.

<table>
<thead>
<tr>
<th>District</th>
<th>Est. ADM</th>
<th>Cash Value</th>
<th>Total School Levy Rate</th>
<th>Estimated Operating Exp. Per Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portland 1J</td>
<td>66,604</td>
<td>$64,746</td>
<td>$13.87</td>
<td>$1,105.04</td>
</tr>
<tr>
<td>Salem 24J</td>
<td>22,042</td>
<td>43,816</td>
<td>20.25</td>
<td>982.38</td>
</tr>
<tr>
<td>Eugene 4J</td>
<td>20,010</td>
<td>44,421</td>
<td>22.46</td>
<td>1,150.02</td>
</tr>
<tr>
<td>South Lane 45J</td>
<td>3,466</td>
<td>38,913</td>
<td>20.55</td>
<td>1,002.10</td>
</tr>
<tr>
<td>Madras 509J</td>
<td>2,201</td>
<td>70,492</td>
<td>11.17</td>
<td>1,099.55</td>
</tr>
<tr>
<td>Sherwood 88J</td>
<td>1,225</td>
<td>42,124</td>
<td>21.10</td>
<td>932.04</td>
</tr>
<tr>
<td>Mill City 129J</td>
<td>540</td>
<td>92,279</td>
<td>15.03</td>
<td>1,328.11</td>
</tr>
</tbody>
</table>
As will be noted, the operating expenditure is approximately the same at Portland and South Lane, and at Eugene and Madras, but the property tax levies vary considerably, even taking into account debt service and serial levies. Debt service and serial levies account for zero part of the rate at Portland, 66 per $1,000 at South Lane, $1.33 per $1,000 at Eugene, .93 at Madras.

A relationship is shown in the comparisons given above between cash value of the districts and their levy rates, although a rule of thumb does not exist. However, the comparisons do show that taxpayers are treated unequally, and that access of children to a good education is dependent partially upon where they live, whether their district is compact, and whether local taxpayers are willing to make an adequate contribution to the schools. An assumption made in the proposed Oregon program is that place of residence should not be a factor in determining whether an adequate education will be provided.

As noted previously, equal opportunity to the best education now being provided is not financially possible. The measure does guarantee a basic education for all children, regardless of where they live, and puts pressure on the high-spending districts to apply controls.

Using the same districts given, and the same estimated average daily membership and true cash values per average daily membership, the rate of levy per $1,000 of cash value for school operational costs, including transportation, would have been:

<table>
<thead>
<tr>
<th>District</th>
<th>Levy Rate*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portland 1J</td>
<td>$1.05**</td>
</tr>
<tr>
<td>Eugene 4J</td>
<td>1.34</td>
</tr>
<tr>
<td>Salem 24J</td>
<td>.79</td>
</tr>
<tr>
<td>South Lane 45J</td>
<td>1.28</td>
</tr>
<tr>
<td>Madras 509J</td>
<td>.97</td>
</tr>
<tr>
<td>Sherwood 88J</td>
<td>.64</td>
</tr>
<tr>
<td>Mill City 129J</td>
<td>2.28</td>
</tr>
</tbody>
</table>

(*The levy rate on non-residential property would be an additional $7.50 for each $1,000 of cash value. The figures do not include serial levies and bonded indebtedness.)
The figures given include a levy of part of the local option levy of $2 per $1,000 in all districts except Mill City, where the entire $2.00 levy must be imposed. Mill City has a much higher than average true cash value per student than other districts, and a much higher than average rate of per-student expenditure, but a much lower property tax levy. Through application of the highest possible local levy, the district is encouraged and in some measure required to control and limit the rate of per-student spending.

The foregoing is provided to indicate the leveling effect on property taxes by the measure proposed.

Following are tabulations and narrative to show the level of tax effort and entitlements in various districts, stratified by local wealth and size. Incidence of high cost (low achieving) pupils is not presented, however, inasmuch as a district-by-district breakdown is not available from the State Department of Education. However, since special education students already contribute to each district's operating cost, the figures would not be meaningful since the new state program assumes the district operating cost. No compaction of special education students exists in any district. Districts with the highest per-student costs are the small, generally remote districts. Their high costs are not due to excessive numbers of special education students.
<table>
<thead>
<tr>
<th>District</th>
<th>ADM</th>
<th>Cash Value Per ADM</th>
<th>Per Pupil Entitlement by State, 1972-73</th>
<th>Per Pupil Entitlement by State, 1973-74</th>
<th>1972-73 Total Property Tax Rate Per $1,000*</th>
<th>1973-74 Total Property Tax Rate Per $1,000**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salem 24J</td>
<td>22,042</td>
<td>$43,816</td>
<td>$185.53</td>
<td>$615.81</td>
<td>$22.84</td>
<td>$19.04</td>
</tr>
<tr>
<td>Corvallis 509J</td>
<td>7,120</td>
<td>47,162</td>
<td>196.86</td>
<td>1,006.72</td>
<td>34.37</td>
<td>14.36</td>
</tr>
<tr>
<td>Lincoln CU</td>
<td>5,468</td>
<td>73,054</td>
<td>208.07</td>
<td>902.93</td>
<td>21.66</td>
<td>12.16</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Baker 5J</td>
<td>2,623</td>
<td>39,416</td>
<td>217.97</td>
<td>602.53</td>
<td>22.23</td>
<td>15.81</td>
</tr>
<tr>
<td>Crook CU</td>
<td>2,640</td>
<td>44,583</td>
<td>191.87</td>
<td>607.50</td>
<td>19.07</td>
<td>9.66</td>
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<td>(Dominant code area)</td>
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<td></td>
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</tr>
<tr>
<td>Morrow 1</td>
<td>1,104</td>
<td>83,307</td>
<td>223.89</td>
<td>994.53</td>
<td>29.17</td>
<td>20.13</td>
</tr>
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<td></td>
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</tr>
<tr>
<td>Cent. Linn 552</td>
<td>960</td>
<td>102,874</td>
<td>214.08</td>
<td>917.79</td>
<td>18.82</td>
<td>6.96</td>
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<td>(Dominant code area)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sheridan 48J</td>
<td>780</td>
<td>24,679</td>
<td>419.30</td>
<td>702.17</td>
<td>30.90</td>
<td>16.78</td>
</tr>
<tr>
<td>Pt. Orford 2J</td>
<td>659</td>
<td>50,405</td>
<td>220.57</td>
<td>827.44</td>
<td>20.50</td>
<td>5.31</td>
</tr>
<tr>
<td>(Dominant code area)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(* Includes taxes on all taxable property for all school costs, including debt service, capital outlay and transportation, and for all community college, special district, county and city property taxes, where applicable.)

(** Includes taxes on owner-occupied homes for all school costs, including debt service, capital outlay and transportation, and for all community college, special district, county and city property taxes, where applicable. The tax on non-residential property is higher than shown in this column by $7.50 for each $1,000 in the cash value of the property.)

Maximum homeowner tax rate per $1,000 in above districts for transportation and school operating costs:

- Salem 24J: $2.29
- Corvallis 509J: 2.54
- Lincoln CU: 2.47
- Baker 5J: 2.53
- Crook CU: 2.78
- Morrow 1: 2.68
- Sheridan 48J: 3.07
- Pt. Orford 2J: 2.63

Maximum non-residential property tax rate per $1,000 in above districts for transportation and school operating costs: Add $7.50 to homeowner rate.
In the foregoing examples, the figures in Column 5, "Per Pupil Entitlement by State, 1973-74," are augmented by deductible receipts, previously described; local contributions to state equalization funds, if applicable; and additional local contributions required within the maximum operating levy rate of $2 for each $1,000 of cash value. The foregoing table is provided primarily to illustrate increases in state entitlement and reductions in tax effort in several districts stratified by size and wealth.

Therefore, it may be helpful to illustrate how the state and local contribution is arrived at for a single district, Corvallis 509J:

State and Local Effort, Corvallis 509J, 1973-74

Approved operating expenditure, Fulltime Equivalent Weighted (FTEW): $1,183.34
Subtract deductible receipts per FTEW: -166.81

Basic state grant per student: $733.19
State equalization per FTEW: 272.93
Local contribution toward equalization from local option levy: 10.41

Total: $1,016.53

Local property tax rate limit, per $1,000: $2.00
Local contribution required for equalization, per $1,000: .46
Remaining authority for local option levy, per $1,000: 1.54
Levy for transportation, per $1,000: .54
Debt service levy, per $1,000: 3.22

Total minimum local levy per $1,000, oper. and transp.: 1.00
Total maximum local levy per $1,000, oper. and transp.: 2.54

Total state levy, all costs, owner-occupied home: --
Total state levy on non-residential property per $1,000, applied only for operating costs: 7.50

Total minimum levy per $1,000 on owner-occupied home, all costs, including bonded indebtedness and serial levies: 4.76
Total maximum levy per $1,000 on owner-occupied homes, all costs, including bonded indebtedness and serial levies: 6.30

Total minimum levy per $1,000 on non-residential property, all school costs: 12.26
Total maximum levy per $1,000 on non-residential property, all school costs: 13.80
1972-73 levy per $1,000, all school costs, all property: $26.88
1972-73 levy per $1,000, all property taxing units: 34.37
Proposed 1973-74 tax rate per $1,000, owner-occupied residence, all taxing units: 14.36
Proposed 1973-74 tax rate per $1,000, non-residential property, all taxing units: 21.86

The above presents the local- and state-required tax effort to provide for the Corvallis District's expenditures for operation and transportation, and for serial levies and debt service. The table demonstrates the equalization pattern to be put into effect with passage of the proposed Act. It also shows the proposed reduction in property taxes for owner-occupied homes, and a slight reduction for revenue-producing property.

IV. Legal Implications

On March 21, 1973, the United States Supreme Court held in the Rodriguez appeal that no substantial Federal question was involved. Oregon was among the friends of the court asking that the Rodriguez opinion be overturned. We agreed that no Federal question was involved, but we intervened largely because of the financial issue. Our opinion was that a strict interpretation of Rodriguez would lead to instant mediocrity in the schools. To bring the poorest schools to the level of the best would have required billions of dollars nationwide, and this money is not available.

Governor Tom McCall said on several occasions that reliance should not be placed upon the Supreme Court to find that a Rodriguez or Serrano case violates the United States Constitution. But he does contend that the cases do present a principle that ought to be engraved in the conscience of Americans: No child should be denied a decent education because of where his family happens to live.

It must be pointed out that the U. S. Supreme Court ruled only that a Federal question is not presented in Rodriguez. State issues remain. Justice Lewis F. Powell, Jr., writing for the majority in the Rodriguez case, said: "The need is apparent for reform in tax systems which may well have relied too long and too heavily on the local property tax. But the ultimate solution must come from the lawmakers and from the democratic pressures of those who elect them."
Before turning to the response of the Oregon Legislature, we should note that the U. S. Supreme Court opinion does no damage to the contention of the California Supreme Court that property taxes as now applied violate the California Constitution, and does no violence to the contention of the Creswell School District in Oregon that the property tax system violates the Oregon Constitution.

Oregon's Constitution requires that: "The Legislative Assembly shall provide by law for the establishment of a uniform and general system of common schools."

The Creswell School District case is pending before Lane County Circuit Court in Eugene, Oregon, at this writing.

Previous sections of this article have related the efforts of the proposed school finance law to bring about tax and school program equalization.

-End-
October 31, 1973

SUPPLEMENT TO:

"ANALYSIS OF STATE SCHOOL FINANCE REFORM LEGISLATION"

PROPOSAL IN OREGON

(Submitted April 13, 1973)

Prepared for:

Office of Education
Department of Health, Education and Welfare
Washington, D.C. 20202

Prepared by:

Robert G. Davis*
Executive Assistant to Tom McCall
Governor of Oregon
Salem, Oregon 97310

*Robert G. Davis was among the principal authors of the Oregon Property Tax Relief and School Finance Act of 1973.
"STATE SCHOOL FINANCE REFORM LEGISLATION APPROVED IN OREGON, 1973"


Both papers prepared by: Robert G. Davis
Executive Assistant to the Governor
Salem, Oregon 97310

Background:


No scientific analysis of the voting results has been made. However, information gleaned from a variety of sources indicates that voters feared the loss of local control should the state finance all operating costs; objections were made that the state might not be able to finance the program at all times in the future; objections were raised by business interests to a statewide tax on their property; and, finally, many voters expressed doubt that true property tax relief would result.

Despite rejection of the proposal, the Oregon Legislature recognized that the public continued to press for property tax relief through improved state assistance to the schools. Consequently, following rejection of the reform legislation on May 1, 1973, the Legislature adopted a series of school finance reform measures, and proposed for an election in May, 1974, a constitutional amendment designed to make additional reforms.
Description of Acts Adopted by 1973 Legislature That Now Are Law:

The property tax relief and school finance legislation adopted by the 1973 Oregon Legislature is structured in three phases:

Phase I

The first phase initiates the new program in both revenue and expenditure sectors. Adjustments in both personal and corporate taxes provide new revenues. Increased expenditure occurs in a restructured "circuit breaker" property tax relief program and increased support in the Basic School Support Fund. The legislative actions:

House Bill 3241 is the revision of and the appropriation of money for the Basic School Support Fund. Basic school support is distributed in a manner analogous to the present program with the following exceptions:

1. The apportionment is distributed 80 percent to the flat grant program and 20 percent to the equalization program; the 1973-74 apportionment provides for 30 percent state funding, and the 1974-75 apportionment provides for 34 percent state funding.

2. In districts where enrollment is declining, the flat grant apportionment will not be reduced proportionately as in past practice. Instead, such a district will continue to receive a portion of the flat grant -- 75 percent -- allocated to the declining enrollment.

3. For the first time, kindergartens are financed by the state, at the rate of one-half ADM. Requirements for an election to establish kindergartens are eliminated.

The measure appropriates, for expenditure through the Basic School Support Fund, $230,987,000 from the General Fund and $63,229,000 from the Federal Revenue Sharing Fund, for a total of $294,216,000 for the 1973-75 biennium. This is contrasted to the support for the 1971-73 biennium of $205,000,000. In the first year of the biennium, the support level is increased to 30 percent, an increase of 10 percent over the 1972-73 level but far under the 95 percent level proposed by the proposal rejected on May 1, 1973.
House Bill 3242 provides for estimated payment of corporate income taxes. On or after January 1, 1974, every corporation with an income tax liability of $500 or more shall make an estimated payment on the tax liability. The measure will generate a one-time revenue collection of $29,000,000 in the 1973-75 biennium. This money is included in the General Fund allocation to the Basic School Support Fund described immediately above.

House Bill 3245 amends the personal income tax laws. Federal income taxes paid, which can be deducted from federal adjusted gross income in computation of state taxable income, is limited to $3,000. The limitation will result in an increase of state tax collections of slightly more than $22,000,000. This law would be effective in the 1974 tax year, and the money collected would be added to General Fund support for the Basic School Support Fund for the 1974-75 school year, increasing state support to 34 percent ($317,000,000).

House Bill 3248 revises the circuit breaker-property tax relief laws already in effect. Homeowners with incomes less than $15,000 and a property tax liability greater than $5 are eligible for tax relief ranging from $100 to $490. Renters with incomes less than $15,000 and a property tax liability greater than $5 are eligible for tax relief ranging from $50 to $245. Refunds granted apply to total property taxes levied or to rent constituting property taxes. "Rent constituting property taxes" is 17 percent of the net rent actually paid by the taxpayer solely for the right of occupancy of the homestead (payments for utilities and cleaning services, for instance, are excluded).

This law also provided that if total funds granted in the first year of the program are less than $66,000,000, the income limitation will be increased to $20,000. The minimum refund would then be extended downward to $20 for homeowners and $10 for renters in the higher-income groups.

The law also provides that if allowable property tax relief claims exceed the income tax liability of an individual or family, the difference between the tax relief and the income tax liability is refunded directly to the applicant.

Standardized refund procedures apply for taxpayers over 65 years of age, and who have incomes of less than $5,000. Renters electing to use the standard form are entitled to $100 or their actual rent constituting property taxes, whichever is less. Owners using the standard form shall be entitled to $200 or the amount of the tax, whichever is less.
Provisions also are made for taxpayers who own a parcel of land but rent the abode situated on it, and vice versa. Provisions are made for residents of nonprofit homes for the elderly. If the federal government provides direct property tax relief to an individual, the state's refund shall be reduced by a like amount.

The estimated cost for the circuit breaker program for the 1973-75 biennium is $136,000,000. The allocation for a lesser circuit breaker program in the 1971-73 biennium was $43,000,000.

Phase II

The second phase of the school finance-property tax relief program is a constitutional amendment to provide for structural changes in school district financing. Phase II is a constitutional amendment that would stand alone, but the greatest impact on school financing would be achieved by passage both of the constitutional amendment and House Bill 2314 at the May, 1974, primary election. (House Bill 2314 is described below.)

House Joint Resolution 72 is the proposed constitutional amendment. It provides:

New tax bases for school districts are provided. The tax base for 1975-76 shall be the sum of: a) the total levy certified by the school district in 1974-75 (except serial and bond levies for capital construction); b) state support for all educational grades, kindergarten through 12, received in 1974-75; c) receipts from the county school fund for 1974-75; and, d) the total of a, b, and c multiplied by 4.5 percent.

The tax base limitation subsequent to 1975-76 would be the prior year's base, plus an additional 4.5 percent.

A school district may increase its tax base only by approval of the voters casting ballots on the question, and in a manner described by law. Any newly approved tax base would be subject to annual increments of 4.5 percent. The tax base limitation would not be reduced because the district levies a lesser amount or because of offsets of state support.

After December 31, 1974, not more than two tax base elections could be held in any year. This limitation is subject to statutory change, however.
Phase III

The final phase completes the structural changes in the school finance system and provides for changes in the tax structure to provide necessary services. The components of the proposal -- to arrive at 50 percent state support of public elementary and secondary schools, and introduce a new equalization program -- are contained in House Bill 2314.

House Bill 2314 contains provisions for changes in the personal and corporate income tax laws and in the method of providing for state support for basic elementary and secondary education. The measure will be placed before the voters in the May, 1974, primary election. If approved, the provisions of the measure will take effect in 1975.

Salient provisions of House Bill 2314 are:

1. New graduated corporate excise tax rates would apply to general corporate business, and banks and financial intermediaries. Present rates are 6 percent on general corporations and 8 percent on financial institutions. The new rates would become:

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - $1,000</td>
<td>4%</td>
</tr>
<tr>
<td>$1,000 - $2,000</td>
<td>5%</td>
</tr>
<tr>
<td>$2,000 - $4,000</td>
<td>6%</td>
</tr>
<tr>
<td>$4,000 - $6,000</td>
<td>7%</td>
</tr>
<tr>
<td>$6,000 - $8,000</td>
<td>8%</td>
</tr>
<tr>
<td>$8,000 plus</td>
<td>9%</td>
</tr>
</tbody>
</table>

(A minimum tax of $10 would be required. In addition, the personal property offset applicable to corporations would be eliminated.)

2. Personal income tax rates would be increased, as follows (joint return):

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Present</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - $1,000</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>$1,000 - $2,000</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>$2,000 - $4,000</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>$4,000 - $6,000</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>$6,000 - $8,000</td>
<td>8%</td>
<td>9%</td>
</tr>
<tr>
<td>$8,000 - $10,000</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>$10,000 plus</td>
<td>10%</td>
<td>11%</td>
</tr>
</tbody>
</table>
3. Limiting to $3,000 the amount of federal income taxes that could be deducted from adjusted gross income in computing state taxable income. (This would be an extension of House Bill 3245, described above. HB 3245 was adopted to be effective only for one year, unless extended by adoption of the bill described here as Phase III.)

4. Adjusting the personal income tax rates so that the return of an unmarried individual would be treated the same as a joint return of husband and wife. The financial impact is negative for the state General Fund; the provision was included in an effort to gain added political support for the measure.

5. The state would provide 50 percent support for the schools and, after an initial flat grant of $250 per pupil, would distribute funds by a two-tier formula: 85 percent of the equalization money would be used to equalize costs between $250 and $800 and the remaining 15 percent would be used for equalization of costs between $800 and $1,000.

6. State support would apply to kindergartens.

7. No district would receive less in 1975 than in 1974, nor would the present method of financing transportation be changed.

8. Provisions are included for a small school correction applicable to program support levels.

9. In districts where enrollment is declining, the flat grant apportionment would not be reduced proportionately. Instead, such a district would continue to receive a portion of the flat grant (75 percent) allocated to the declining enrollment. (This continues a provision of House Bill 3241, described above.)

10. The equalization of the Intermediate Education District (county of multiple districts) is eliminated. (Under present law, equalization may be provided by the IED only with voter approval.)

If enacted, this measure would allow an increase in the Basic School Support Fund from the $317,000,000 authorized for 1973-75 to a new level of $548,500,000 for 1975-77 to achieve a 50 percent support level.
Impact of New Laws and Proposals on Selected School Districts

Following is a table (Table A) showing increased allocations to school districts in 1973-74 if the two-tier allocation program were in effect now. The tax rate reductions shown are for all classes of property. They do not reflect additional reductions in taxes for persons receiving homeowner or renter tax relief. Table B, appearing later, shows the full impact on homeowners and renters in selected situations.
### TABLE A

<table>
<thead>
<tr>
<th>City</th>
<th>Existing 1973-74 BSSF* Allocation</th>
<th>1973-74 Allocation If Two-Tier BSSF Program in Effect**</th>
<th>Tax Rate Reduction If Two-Tier BSSF Program in Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corvallis</td>
<td>$2,064,000</td>
<td>$4,486,000</td>
<td>$7.20 (per $1,000)</td>
</tr>
<tr>
<td>Coos Bay</td>
<td>$1,937,000</td>
<td>$3,757,000</td>
<td>$7.75***</td>
</tr>
<tr>
<td>Eugene</td>
<td>$4,763,000</td>
<td>$11,045,000</td>
<td>$7.36</td>
</tr>
<tr>
<td>Salem</td>
<td>$6,247,000</td>
<td>$12,151,000</td>
<td>$6.21</td>
</tr>
<tr>
<td>Portland</td>
<td>$15,201,000</td>
<td>$20,088,000</td>
<td>$1.78***</td>
</tr>
<tr>
<td>Beaverton</td>
<td>$4,973,000</td>
<td>$11,301,000</td>
<td>$6.77</td>
</tr>
<tr>
<td>Pendleton</td>
<td>$1,090,000</td>
<td>$2,073,000</td>
<td>$6.80</td>
</tr>
</tbody>
</table>

* BSSF: Basic School Support Fund

** Two-Tier Allocation becomes effective in 1975-76, and only if voters approve measure on May, 1974, primary election ballot.

*** Coos Bay, with the highest present tax rate for a major community, receives the greatest offset. Portland, with among the lowest tax rates for schools, receives the least offset in these comparisons.
Comparison of Above Laws and Proposals With Prior School Finance Reform Attempt

On Page 3 of the paper entitled "Analysis of State School Finance Reform Legislation" -- by Robert G. Davis for Office of Education, dated April 13, 1973 -- seven principles were outlined that the Governor of Oregon believed a school finance reform plan should contain. The proposal of the Governor was rejected by voters on May 1, 1973. Following is a restatement of the principles and the author's analysis of whether the new laws and proposals meet those principles:

-- "That taxation for school operating costs be based on the ability to pay." Legislative enactments of 1973 do not fully satisfy the principle, inasmuch as 50 to 70 percent of the local school operating costs remain as an obligation of the homeowner. However, the liberalized circuit breaker, offering property tax relief to all homeowners and renters earning less than $15,000 annually, regardless of age, is a major effort to enact the principle.

-- "That there be no shift in the tax burden from individuals to business, or from business to individuals." This principle is met, basically, inasmuch as increased revenues for school purposes are realized largely from changes in the income tax structure.

-- "That taxes on homes for school operating costs must be virtually abolished." The new proposal assures state assumption of 34 percent of school operating costs. If the voters approve the appropriate measure at the May, 1974, primary, this would rise to 50 percent, but at this time there is grave uncertainty that the measure will be adopted. But, again, the vastly improved circuit breaker -- effective regardless of voter action at the May, 1974, primary election -- moves toward the principle. The movement is not far enough, however, since the school tax rises fastest. Without a limitation of the kind proposed by the Governor for homeowners, school taxes again could climb to an onerous level. Another mitigating factor against the tack taken by the Legislature is the requirement that homeowners and renters apply for their tax relief, rather than receiving it directly through a tax limitation. In the last biennium, even a massive, costly education program still failed to reach all homeowners eligible for property tax relief.
-- "That taxes on non-residential property for school operating costs must be applied uniformly statewide." This principle is not met. Advantages and disadvantages to farms and businesses remain.

-- "That constitutional limitations on property taxes for school operating costs must be applied." The Oregon Legislature's proposal would grant present tax bases to schools and authorize a maximum 4.5 percent annual increase. But it also would allow local districts two chances annually to increase the tax base. While the circuit breaker has value in reducing property taxes for school operating costs, it does not satisfy the "absolute limit" principle.

-- "That tax relief must be authorized for renters in lieu of property taxes paid." This was met.

-- "That financing must be made available to provide every elementary and secondary school student an opportunity to gain an adequate education." The Legislature was not able to meet that principle. The proposal on the May, 1974, primary election ballot for a new two-tier equalization formula would be a major improvement, but still would leave the advantaged districts with the financial capacity to provide more than poorer districts. The Governor's proposal recognized that some inequities would continue, but also contained the seeds for accelerating the financial capacity of disadvantaged districts while slowing the growth of spending in rich districts.

Impact on Property Taxes in Selected Districts Under Laws in Effect

The following table (Table B) represents the reduction in total property taxes for homeowners in selected school districts for 1973-74:
### TABLE B

<table>
<thead>
<tr>
<th>City</th>
<th>Home Value</th>
<th>Yr. Income</th>
<th>1972-73 Tax Liability</th>
<th>1973-74 Tax Liability</th>
<th>% Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corvallis</td>
<td>$18,000</td>
<td>$12,000</td>
<td>$619</td>
<td>$458</td>
<td>-26%</td>
</tr>
<tr>
<td></td>
<td>$29,000</td>
<td>$17,000</td>
<td>$997</td>
<td>$799</td>
<td>-20%</td>
</tr>
<tr>
<td>Coos Bay</td>
<td>$18,000</td>
<td>$10,000</td>
<td>$680</td>
<td>$495</td>
<td>-27%</td>
</tr>
<tr>
<td></td>
<td>$11,000</td>
<td>$ 7,500</td>
<td>$379</td>
<td>$215</td>
<td>-57%</td>
</tr>
<tr>
<td>Eugene</td>
<td>$19,000</td>
<td>$12,000</td>
<td>$648</td>
<td>$497</td>
<td>-23%</td>
</tr>
<tr>
<td></td>
<td>$14,000</td>
<td>$ 9,000</td>
<td>$478</td>
<td>$315</td>
<td>-34%</td>
</tr>
<tr>
<td>Salem</td>
<td>$18,000</td>
<td>$12,000</td>
<td>$591</td>
<td>$424</td>
<td>-28%</td>
</tr>
<tr>
<td></td>
<td>$13,000</td>
<td>$10,000</td>
<td>$427</td>
<td>$278</td>
<td>-35%</td>
</tr>
<tr>
<td>Portland</td>
<td>$14,000</td>
<td>$11,000</td>
<td>$405</td>
<td>$283</td>
<td>-30%</td>
</tr>
<tr>
<td></td>
<td>$19,000</td>
<td>$13,000</td>
<td>$549</td>
<td>$420</td>
<td>-23%</td>
</tr>
<tr>
<td>Beaverton</td>
<td>$30,000</td>
<td>$18,000</td>
<td>$926</td>
<td>$748</td>
<td>-19%</td>
</tr>
<tr>
<td></td>
<td>$22,000</td>
<td>$12,000</td>
<td>$679</td>
<td>$522</td>
<td>-23%</td>
</tr>
<tr>
<td>Pendleton</td>
<td>$13,000</td>
<td>$10,000</td>
<td>$452</td>
<td>$299</td>
<td>-34%</td>
</tr>
<tr>
<td></td>
<td>$18,000</td>
<td>$13,000</td>
<td>$626</td>
<td>$453</td>
<td>-28%</td>
</tr>
</tbody>
</table>

1. The paper, "Analysis of State School Finance Reform Legislation," Proposal in Oregon, by Robert G. Davis for the Office of Education (April 13, 1973), noted that the proposal would create different tax rates for residential and non-residential property. After that proposal was defeated by voters, the Legislature returned to the concept of identical tax rates on the two classes of property. Tax reductions were provided for both classes of property, but the greatest reductions were provided to homeowners and renters through improvement of the circuit breaker concept.

2. Tax liability is based on circuit breaker law in effect for 1972-73.
The following table demonstrates the reductions in tax rates for the school districts shown in Table A:

<table>
<thead>
<tr>
<th>City</th>
<th>1972-73 Tax Rates</th>
<th>1973-74 Tax Rates$^{1,2}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corvallis</td>
<td>$34.37</td>
<td>$31.01</td>
</tr>
<tr>
<td>Coos Bay</td>
<td>$37.78</td>
<td>$33.07</td>
</tr>
<tr>
<td>Eugene</td>
<td>$34.11</td>
<td>$31.40</td>
</tr>
<tr>
<td>Salem</td>
<td>$32.85</td>
<td>$29.11</td>
</tr>
<tr>
<td>Portland</td>
<td>$28.92</td>
<td>$27.36</td>
</tr>
<tr>
<td>Beaverton</td>
<td>$30.87</td>
<td>$28.27</td>
</tr>
<tr>
<td>Pendleton</td>
<td>$34.75</td>
<td>$30.71</td>
</tr>
</tbody>
</table>

1. These tax rates are based upon the State Department of Education's estimated school tax rate changes. Since the rates are consolidated -- city, county, community colleges, special districts and schools all are included -- and are based upon assessor's records for 1972-73, the rates may be slightly overstated.

2. Narrowing of the differences between rates of the districts should be noted as a salutary effect of the Legislature's action. Under past law the rates varied in these examples by almost $9 for each $1,000 of assessed valuation. The new law narrowed the gap, in these representative examples, to a maximum of $5.71 per $1,000.
Legal Implications of Legislative Acts

On Page 16 of the paper, "Analysis of State School Finance Reform Legislation," Proposal in Oregon, by Robert G. Davis for the Office of Education (April 13, 1973), an argument is made for the now-defeated plan that equality of education would not result immediately from that proposal, but that the proposed change would lead to it.

The Legislature, in adopting substitute measures, left Oregon even more short of the goal. Equalization offered continues to afford the richer districts opportunity to provide for their students that is beyond the financial capacity of poor districts.

As noted in the previous paper, a suit has been brought by the Creswell School District of Oregon that is similar to the cases decided by state and federal courts elsewhere. The suit is at the adjudication stage.

Summary

The Oregon Legislature has been able to increase state support of public elementary and secondary schools from a level of 20 percent to a level of 30 percent in the 1973-74 school year. The level of support will rise to 34 percent in the 1974-75 school year.

This was made possible primarily by speeding up corporate income taxes, a "one-shot" proposal; limiting the federal deduction against state taxable income to $3,000; and applying federal revenue sharing funds toward basic school support.

On the "reform" side, the Legislature has changed the equalization formula only slightly, has protected school districts with declining enrollment -- for the first time -- and has provided financing, again for the first time, for kindergartens.

The major decisions rest in the hands of the voters. The basic issues presented for voter approval in the May, 1974, primary election are these:

-- An increase in the Basic School Support Fund from 34 to 50 percent of operating costs.

-- New tax bases for all school districts.

-- Limitations on tax base increases of 4.5 percent, with voters given the option of approving new tax bases.
-- Changes in corporate and personal income tax rates to effect additional property tax relief and an improved equalization formula.

Taken together, the changes would place Oregon in the middle ground of the states seeking school finance reform. But emphasis has been more on property tax relief than on school finance reform, so even with acceptance of Phases II and III by the voters -- which is doubtful -- the State of Oregon remains subject to a forced improvement through successful prosecution of a Serrano-type lawsuit.

-End-