

OSBA Revenue Reform Advisory Workgroup – Final Report and Recommendations

Background

Since the passage of Ballot Measure 5 in 1990 Oregon's system of public school funding has moved from a locally funded system (local property taxes) to a state funded system. In addition, following the passage of Ballot Measure 5 the Oregon Legislature also enacted a permanent K-12 equalization funding formula to attempt to equalize funding among Oregon's school districts and education service districts (ESD). Fast forward to today and roughly 70% percent of the funds to operate local schools comes from the state and the state's General Fund.

Oregon's General Fund is made primarily of tax revenues based largely on income taxes (both personal and corporate). When Oregon's economy is growing and job growth is positive the General Fund of Oregon grows, but when Oregon's economy has a downturn the General Fund is impacted and is decreased based on the income of Oregon taxpayers. Since 1990 Oregon has experienced its share of economic ups and downs. These economic ups and downs have significant impact on the funds available to the Oregon Legislature to fund public schools, and other vital services. Public schools in Oregon have experienced cuts to the level of funding to the State School Fund in several special sessions of the Oregon Legislature. Public schools in Oregon have ridden this "roller-coaster" of funding to the detriment of students and student success. It is against this backdrop that the Oregon School Boards Association (OSBA) Board of Directors, led by OSBA President Doug Nelson, created an advisory workgroup to look at proposing some type of revenue reform to provide a stable and adequate level of funding for public schools in Oregon.

The specific charge to the workgroup was as follows:

The OSBA Revenue Reform Advisory committee will serve as an advisory committee to both the OSBA Board of Directors and the OSBA Legislative Policy Committee (LPC). In this role the committee will gather data and information related to revenue reform that would lead to stable and adequate funding for K-12 public schools in Oregon.

The committee will be made of a diverse representation of OSBA's membership will include membership from the OSBA Board, the OSBA LPC and other school board members from across Oregon. The OSBA President shall appoint the members of the advisory committee.

The committee will review Oregon's current system of funding public schools and review any and all alternatives for revenue reform in Oregon. This shall include, but not be limited to, property tax reform, income tax reform (corporate and personal), 2% kicker reform, sales/consumption tax implementation and local revenue reform. The purpose of the committee is to help the OSBA Board, OSBA LPC and the broader OSBA membership to discuss options for revenue reform to establish a stable and adequate level of funding for public K-12 schools beginning with the 2017-2019 biennium.

With this as the charge, OSBA President Nelson appointed the following school board members to the workgroup:

- Betty Reynolds, Chair (West Linn-Wilsonville and OSBA President-elect)
- Paul Anthony (Portland Public Schools and OSBA Board)
- Jennifer Geller (Eugene)
- Liz Hartman (Lake Oswego and OSBA LPC)
- Cheri Helt (Bend-LaPine and OSBA Board)
- Kris Howatt (Gresham-Barlow and OSBA Board)
- Steve Lowell (Klamath County)
- Scott Rogers (Athena-Weston and OSBA Board)
- Don Cruise (Philomath and OSBA Secretary Treasurer) – Ex-Officio
- Doug Nelson (High Desert ESD and OSBA President) – Ex-Officio

OSBA staff assigned to the workgroup included Morgan Allen (now with the Confederation of Oregon School Administrators), Lori Sattenspiel, Jane Leonhardt, Richard Donovan, Jim Green and Betsy Miller-Jones.

Several background materials were provided to the workgroup as it began its work. These included the following documents:

- K-12 and ESD School Finance – State School Fund Distribution Research Report #2-10 prepared by the Legislative Revenue Office, July 2010 (Attached as Exhibit A).
- 2015 Oregon Public Finance Basic Facts Research Report #1-15 prepared by the Legislative Revenue Office, February 2015 (Attached as Exhibit B).
- Analysis of Options for Restructuring Oregon’s State and Local Revenue System Research Report #4-15 prepared by the Legislative Revenue Office, December 2015 (Attached as Exhibit C).
- Revenue Reform in Oregon (PowerPoint Presentation) prepared by Paul Warner – Legislative Revenue Officer, January 2016 (Attached as Exhibit D).

In addition to these materials the committee reviewed several other pieces of information in its discussions and deliberations. These included:

- Sen. Mark Hass’ Revenue Reform/Tax Plan (Attached as Exhibit E)
- Oregon Property Tax Capitalization: Evidence from Portland prepared by the Northwest Economic Research Center (NeRC) Portland State University, March 2014 (Attached as Exhibit F).
- Property Tax Limitation Reform Options (Attached as Exhibit G).
- Property Tax Limitation Reform: Some of the Options (Attached as Exhibit H).
- Perspectives on Property Tax Limitation Reform (Attached as Exhibit I).
- House Joint Resolution 24 – 2013 Oregon Regular Session (Attached as Exhibit J).
- Senate Joint Resolution 11 - 2013 Oregon Regular Session (Attached as Exhibit K).
- Senate Joint Resolution 14 - 2013 Oregon Regular Session (Attached as Exhibit L).
- Oregon Property Tax Reform Survey prepared by Gerstein, Bocian & Agne, April 2013 (Attached as Exhibit M).
- Senate Joint Resolution 204 – 2016 Oregon Regular Session (Attached as Exhibit N).
- OSBA Strategic Plan, Visionary Areas and Four Bold Steps (attached as Exhibit O).
- OSBA Fall Regional meetings comments (Attached as Exhibit P).

These exhibits provided valuable background to the workgroup as it deliberated towards a recommendation. Several of these exhibits provided revenue reform alternatives that the workgroup considered which are described in more detail under the section of this report entitled “Alternatives Considered.” Clearly, there is no shortage of materials available for review on this topic and the workgroup considered all the reports and all the information provided to make its recommendation.

External Factors

In addition to the simple fact that funding for public schools in Oregon is inadequate and very unstable, there are other external factors that the workgroup considered and discussed during its work on this issue. First and foremost is the current political landscape in Oregon. Secondly, the workgroup reviewed OSBA’s position in the educational community and its relationship with other educational partners (i.e. OEA, ChalkBoard, COSA, Stand for Children and the business community). Finally, the workgroup considered cost drivers that impact school funding and how school districts spend their dollars on issues outside of their control.

Oregon’s political landscape has changed somewhat over the last decade. All of Oregon’s statewide offices are held by Democrats as are both chambers of the Oregon Legislature. This fall’s election calendar will be more full than normal in Oregon since we will have a gubernatorial election to select either Kate Brown or Bud Pierce to complete John Kitzhaber’s unexpired term since he resigned his office in 2015. Also this election cycle will be led by what many people are calling one of the most contentious presidential elections in recent memory.

In the area of funding for public education, there have been some recent gains, but Oregon remains significantly below the level of funding necessary to fund the Quality Education Model. There has not been a serious, policy-level discussion at the legislature, or by our state level leaders to address how we will meet our educational goals of 40 – 40 – 20 by 2025. Additionally, the legislature has not addressed comprehensive revenue reform and has kept additional reforms to the Public Employees Retirement System off the table. While some elected leaders have tried to begin discussions on these issues, no bi-partisan, collaborative solutions have come to fruition. Essentially the workgroup noted that as locally elected leaders in communities across Oregon it is incumbent upon OSBA and school board members to address these important issues head-on to assure that the necessary resources are available for student success across Oregon. During last year’s Fall Regional meetings, OSBA’s membership was asked whether they would support revenue reform if it meant stable and adequate funding for public schools in Oregon – and the answer was a resounding yes! With a lack of leadership being demonstrated by our other statewide elected officials and the Oregon Legislature, the workgroup believes that school board members are the right group and individuals to bring forward bold recommendations that will change the trajectory of school funding and student success in Oregon in a meaningful manner.

In addition to the elective offices that are open this November, Oregon will also vote on several ballot measures – the most notable of which will be Ballot Measure 97. According to most pundits in Oregon this will be the most expensive ballot measure in Oregon’s history. While the measure will raise a significant amount of funds in the upcoming biennium (an estimated \$6.2 billion) – it does not dedicate any funds specifically to public education and would let the Oregon Legislature spend these funds as it sees fit out of the state’s General Fund. Also, depending on who one listens to, the measure may pass –

or it may not. In either case the workgroup based its recommendation on assuring a dedicated source of funds for public schools.

Ballot Measure 97, and the campaigns concerning this measure, have brought several issues to the forefront of the discussion surrounding how Oregon pays for its services provided to Oregonians. The “pro” side of the campaign indicates that the measure is needed to pay for core services, while the “anti” side has pointed out that the measure does not require the legislature to spend the funds on any certain sector of the budget. The workgroup has heard this debate, as well as the comments from school board members from across Oregon during the 2016 Fall Regional meetings and believes that any revenue reform package needs to raise new revenue and needs to ensure that these funds are dedicated to education.

Over the last several years OSBA has re-directed its efforts into advocacy and becoming “the voice” for locally elected school boards at the state level. School board members from across Oregon have been engaged in ensuring the voice of local school boards is heard on a variety of issues and at a variety of venues. OSBA, and its local school board members collectively, are seen as the front line advocates for schoolchildren and improving schools at every level for one reason only – improving student success and achievement. OSBA has spent the last several years building relationships with a broad coalition of partners from within the education community and others who have a significant interest in our public schools becoming better and producing the best citizens possible from our public schools. Working with business partners and our educational coalition members OSBA has ensured that policy makers at the state and local levels understand the needs of our local school districts. The workgroup discussed and acknowledged that some of the recommendations in this report may not be supported by all of OSBA’s partners, but at the heart of the recommendations are the vision of what education should be for every student in Oregon. The workgroup also acknowledged that there will need to be significant outreach to OSBA’s partners, at every level, to ensure they understand the recommendations brought forward in this report, and that we continue to work together for Oregon’s schoolchildren.

In conjunction with the current political landscape in Oregon other factors also weighed on the workgroup’s discussions. Particularly the outside uncontrollable costs that school districts face as part of their operational expenses. It was noted by the workgroup that costs associated with the Public Employees Retirement System (PERS) have a direct effect on the funding situation for public schools in Oregon and these costs must be addressed as well as revenue reform. The unfunded actuarial liability of PERS continues to grow, and with the recent Oregon Supreme Court case (the *Moro* decision) overturning the modifications to the system, costs will continue to grow for public schools next biennium by an estimated \$800 million. The workgroup believes this issue, as well as other cost drivers for public schools (health care costs and other unfunded mandates), need to be addressed to ensure funds designed to increase student success actually make it to the classroom. After much discussion by the workgroup on this topic, the workgroup notes that any proposed changes to PERS needs to be able to withstand constitutional challenges and reduce the overall costs of the existing system. While the workgroup acknowledges the need for changes and supports OSBA’s proposed legislative priority to address this issue, the workgroup does not want to dilute the discussion for revenue reform and the need for a dedicated source of funding for K-12 public schools.

The workgroup acknowledged there will always be outside external factors that will impact the discussion of revenue reform and providing stable, adequate and equitable funding for Oregon’s public

schools, but they also recognized that the time to act is now and OSBA's membership is demanding leadership on this crucial subject. Waiting for the perfect moment is not an option and the workgroup firmly believes school board members across Oregon are ready to advance a bold plan that will move the dial significantly to address the problem of school funding in Oregon.

Alternatives Considered

At the direction of the workgroup, OSBA staff provided information to the workgroup on various revenue reform proposals that have either been put forward in the recent past or up for consideration at the current time. These alternatives included the following (in no particular order or priority of preference):

1. Ballot Measure 97

Ballot Measure 97 is a proposed Ballot Measure for the 2016 General Election that would increase the corporate tax rate on certain corporations and net the state general fund nearly an increase of \$6.2 billion a biennium.

Specifically, the measure dedicates these funds to public early childhood and kindergarten through 12th grade education; health care; and services for senior citizens. The measure further states that the revenue distributed shall be in addition to other funds distributed for these programs.

The measure raises these funds by raising the minimum tax that "C" corporations pay based on Oregon sales. If a "C" corporation has sales in Oregon in excess of \$25 million the minimum tax would be \$30,001 plus 2.5% of the excess over \$25 million.

According to the Legislative Revenue Office (LRO) approximately 1,000 corporations doing business in Oregon would be impacted by this tax increase. The campaign in favor of the measure argues that this will move Oregon from the bottom of the corporate tax rate of U.S. states and will require out-of-state "big-box" corporations (Wal-Mart, Target, etc.) to pay their fair share. The campaign in opposition to the measure states this is a hidden sales tax that will increase the cost of all goods and services to Oregonians and creates inequities in the Oregon tax code for corporations since this only singles out "C" corporations.

PROS:

- Raises a significant amount of new revenue for Oregon's General Fund
- Provides new revenue for vital services across Oregon
- Does not increase tax burden for individual taxpayers in Oregon
- Requires certain corporations to carry more of the tax burden

CONS:

- Requires a statewide vote and campaign
- Does not guarantee any portion of the funds raised will go to education
- Allows the state legislature to spend the funds at their discretion
- Could create a "pyramiding" effect and raise the cost of goods and services to Oregonians
- Does not eliminate the volatility of Oregon's reliance on income taxes to fund the state's General Fund

2. The “Hass Plan” (Exhibit E)

Senator Mark Hass (D-Beaverton) has proposed an alternative plan to raise revenue and help fund public education in Oregon. Under his plan he would have the state enact a Commercial Activity Tax (CAT) similar to the recent CAT adopted in Ohio.

Hass’ CAT would be set at 0.39% on all businesses in Oregon with sales greater than \$1 million. According to LRO this would raise roughly \$2 billion in new revenue in the 2017-2019 biennium. The plan then offsets this revenue increase by eliminating the Corporate Income Tax (-\$1.094 billion), increase the Earned Income Tax Credit from 8% to 18% (-\$126 million) and double the standard deduction for certain individual Oregon taxpayers (-\$366 million). This would reduce the total amount of new revenue for the 2017-2019 biennium to roughly \$511 million. The plan would then dedicate \$500 million in new revenue to public education (K-12, community college and public higher education).

PROS:

- Can be enacted by the Legislature
- The Oregon Tax Incident Model (OTEM) shows an overall employment growth of 4,400 jobs (both public and private)
- Provides simplicity in Oregon’s corporate tax code
- LRO models show continued revenue growth under the plan
- Provides new revenue to public education

CONS:

- Does not provide enough revenue growth to either meet the Quality Education Model or to meet the state’s education goals of 40-40-20 by 2025
- Does not guarantee any portion of the revenue is dedicated to K-12
- Does not eliminate the ability of the Legislature to off-set (make fungible) against any other appropriation to education
- Still may be opposed by the Oregon Business Community

3. Property Tax Reform (Exhibits F – M)

Oregon’s school districts still receive a significant amount of their funding from local property taxes. Roughly 25-30% of funds available to school districts come from local property taxes. Several ballot measures (Ballot Measures 5, 47 and 50) that have been adopted by Oregonians have limited property taxes for schools and other units of local government. These ballot measures have also created some inequities in the property tax system across Oregon.

Also, with the passage of the State School Fund Formula local property taxes are an off-set for school districts against the amount of money the school districts receive from the state under the State School Fund, thereby effectively equalizing property taxes across all school districts in Oregon.

Some proposals to alter Oregon’s property tax system have been identified and reviewed. These include:

A. Resetting the value of property at the time of sale (Exhibits G, H, K and M)

PROS:

- Assessed value is reconnected to the market value
- Raises revenue for local governments, including schools
- No one is “taxed out of their home”

CONS:

- Taxes are shifted from business to residential property taxpayers
- Can create sharp tax disparities between adjacent properties
- Could impact the number and amount of property sales
- Requires a Constitutional amendment and a vote of the people
- Statewide polling numbers are not good

B. Create a variable Maximum Assessed Value (MAV) for properties (instead of the current 3% annual change in MAV, increase high ratio properties by 1.5% and low ratio properties by 6%) (Exhibits G, H, L and M)

PROS:

- Inequities among properties are reduced
- Shift from business to residential is slowed
- Change is very gradual

CONS:

- Change is very gradual
- Difficult for voters to understand
- Requires a Constitutional amendment and a vote of the people
- Statewide polling numbers are not good

C. Allow Local Options Levy to be outside the limits of BM 5 (Exhibits G, H and M)

PROS:

- Local governments, including schools, could receive additional revenue without Property tax compression

CONS:

- Inequities among school districts are increased
- Requires a Constitutional amendment and a vote of the people
- Statewide polling numbers are not good
- Requires passage of a local option levy

D. True Value (taxes would be based on Real Market Value (RMV), with rates reduced to provide revenue neutrality, and a limit – for example 8% - on annual increase in the tax bill (Exhibits G, H and M)

PROS:

- Inequities are reduced
- Market distortion is reduced
- Tax bill increases are limited

CONS:

- Requires a Constitutional amendment and a vote of the people
- Statewide polling numbers are not good
- Difficult for voters to understand

E. Minimum Assessed Value (phase in minimum percentages until every property pays tax on at least one-half of its market value) (Exhibits G, H and M)

PROS:

- Inequities are reduced
- Market distortion is reduced

CONS:

- Some tax bills may increase quickly
- Requires a Constitutional amendment and a vote of the people
- Statewide polling numbers are not good

In addition to these ideas as a stand-alone proposal there has been discussion of combining one or more of these ideas together and place them before the voters of Oregon for consideration. The biggest obstacle to any type of property tax reform is it requires a statewide vote of the people to amend Oregon's Constitution and polling done as recently as 2013 showed most proposals were difficult to explain to the average voter and when asked whether they would support any reform if it would increase their property tax bill, the numbers for support were not good.

4. Retail Sales Tax/Gross Receipt Tax

Oregon is one of only a small handful of states that do not currently have a general retail sales tax or gross receipt tax. Oregon has voted on implementing some sort of sales tax nine times, and each time the voters of Oregon have voted it down. The last attempt was in 1993 (Ballot Measure 1) which was a 5% sales tax with all the normal exemptions included and the revenue was dedicated to K-12 public education. The measure was resoundingly defeated 74.97% no, and only 25.03% yes.

Groups and individuals that have supported a sales tax some time refer to it has the needed "third leg" of the stool in Oregon's revenue system. Most proposals include a certain percentage added to the sale of certain goods (exemptions for farm machinery, prescription drugs, needed medical supplies and automobiles to name a few) and the funds are dedicated to public K-12 schools and precludes the Legislature from reducing other funds to schools.

PROS:

- Adds additional revenue source for funding of schools

- Everyone pays the tax, including tourists and visitors to Oregon
- Fairly stable source of revenue

CONS:

- Can be seen as a regressive tax hitting lower income earners harder
- Voted down nine times by the voters of Oregon
- Probably would require a Constitutional amendment and a vote of the people
- Statewide polling numbers are not good

5. Require funding to the Quality Education Model under Article 8, Section 8 of the Oregon Constitution

In 1999 Oregon voters approved Ballot Measure 1 which states the following:

***Section 8. Adequate and Equitable Funding.** (1) The Legislative Assembly shall appropriate in each biennium a sum of money sufficient to ensure that the state's system of public education meets quality goals established by law, and publish a report that either demonstrates the appropriation is sufficient, or identifies the reasons for the insufficiency, its extent, and its impact on the ability of the state's system of public education to meet those goals.*

In response to this, the 2001 Legislature created the Quality Education Commission to determine the amount of funding needed to meet the state's quality education goals as set in the Quality Education Model. Many individuals believed that this would finally solve Oregon School Funding problems. However, in the language in Article 8 of the Oregon Constitution there is an "out" for the Legislature. They can either fund the QEM, or write a report as to why they cannot fund the QEM. Each time that the Legislature has met it has not fully funded the QEM and has written a report as to the reasons it cannot fund the QEM.

In 2006 school districts and parents sued the state over this provision and said the state is not living up to its Constitutional requirement. In 2009 the Oregon Supreme Court issued its opinion in *Pendleton School District v. State of Oregon*. The Court held that each provision of this inconsistent constitutional clause should be read separately and enforced separately, *i.e.*, the legislature is obligated to appropriate the amount of money that is necessary to meet the quality educational goals, but if it doesn't meet this obligation, it should issue a report that admits to the underfunding and explains to the public why it did not meet its obligation and what impact the underfunding will have on the state's public education system, essentially stating that the Legislature does have an "out" from the funding requirement.

Since that decision many people and groups have proposed eliminating from the Oregon Constitution the "out" for the Legislature and simply require them to fund schools to the QEM level.

PROS:

- Provides adequate funding to meet the QEM
- In the 2015-2017 biennium it would have added over \$2 billion to the State School Fund

CONS:

- Requires a Constitutional amendment and a vote of the people
- Does not provide any additional revenue to the state to meet this obligation
- Puts other vital state services (human services, corrections, higher education, etc.) at risk of receiving huge reductions in order to fund the QEM for K-12 public schools
- Normal allies in school funding issues (public employee unions, social service groups and advocates for other programs) would likely oppose a ballot measure without the necessary funding
- Could create a litigation nightmare like what Washington is experiencing

6. 2% Kicker Reform

The 2% surplus kicker is part of the Oregon Constitution (Article IX, Section 14). It gives taxpayers an income tax refund or credit if actual revenues for the biennium are more than 2% higher than forecast at the time the budget was adopted.

The kicker law divides all General Fund money into two pots: (1) corporate taxes; and (2) personal income taxes plus all other revenues. At the end of each biennium, if the actual collections in either of these two pots are more than 2% higher than was forecast at the close of the regular session, then a refund or credit must be paid. If a kicker is triggered, then all the money in that pot in excess of the close of session forecast, including the 2%, is returned to taxpayers. In 2012 Oregon voter's voted to divert the corporate kicker, when it "kicks" to go to help fund Oregon schools.

In this most recent biennium both kickers "kicked" and the state was required to give money back to individual tax payers. This was roughly \$475 million this past year in the form of a tax credit on personal income taxes filed with the state. In previous years this number has been higher and lower, depending on the estimate and the amount of tax revenues collected.

OSBA for several years has had as part of its legislative policies a statement supporting reforming the personal kicker law and redirecting those funds into a "Rainy Day fund" for public schools available to the legislature to help funds school when Oregon's economy take a downturn. This policy generates the most negative comments from OSBA's members. Even though a majority of members support the idea, it does have its critics, even within our association.

PROS:

- Provides additional resources to help fund schools in economically distressed times
- Eliminates the "guessing game" that LRO and the state economists play each biennium to see if they come within 2% of estimated revenues

CONS:

- Does not provide adequate and stable amounts of revenue for overall school funding
- Requires a Constitutional amendment and a vote of the people
- Statewide polling numbers are not good

7. The “Superintendent’s” Proposal from the 2016 session – Senate Joint Resolution 204 (Exhibit N)

Prior to the convening of the 2016 legislative session a small group of school district superintendents proposed an idea that ultimately became SJR 204 from the 2016 session. The measure did not receive a hearing and was not considered during the 2016 session.

Essentially the measure amended the Oregon Constitution to require the Legislature to spend not less than 33 percent of the legislatively approved budget for the purposes of funding education and public safety. The bill defined “education” as early childhood programs, kindergarten through grade 12 programs, youth development programs and post-secondary education programs. The measure broadly defined the term “public safety” to include community safety, law enforcement and resolution of civil matters, prosecution and defense services related to the court system, incarceration and related treatment services and prevention and intervention programs, including the judicial branch of state government, the Oregon Military Department, disaster preparedness and homeland security. The measure also defined the term “Legislatively adopted budget” as the total funds budget enacted by the Legislative Assembly during an odd-numbered year regular session, including monies from the General Fund, federal funds, lottery funds and other funds.

While no official analysis was done on this measure to analyze how much funding would actually go to schools, there were estimates that it would provide increased funding to schools. Other estimates indicated it could provide an actual reduction in the amount of funding available for schools due to the way the overall state budget operates. If the measure were to ensure a percentage of the overall state budget it means that portions of the current budget that go for other programs (human services) would not be available for that portion of the budget. Some of the programs in the state budget receive matching federal funds. If the state did not have those funds available for those matching programs, those federal dollars may not flow to the state, which could actually decrease the legislatively approved budget, which in turn, could lessen the amount of funds available for this proposals.

Clearly, this measure would need further analysis to know its true impact on the overall state budget.

PROS:

- Dedicates a certain percentage of the state budget to education and public safety

CONS:

- Requires a statewide vote to amend the Constitution
- True economic impact is unknown
- Does not adequately describe “education” to ensure K-12 would receive a funding increase
- Does not prescribe an amount that the legislature would need to appropriate to education or public safety under the measure

- Normal allies in school funding issues (public employee unions, social service groups and advocates for other programs) would likely oppose a ballot measure without the necessary funding

8. Speaker Karen Minnis' plan from 2005

During the 2005 legislative session, then-Speaker of the House Karen Minnis came up with a proposal she called the "Stable Schools Funding Plan." The plan would have dedicated 51 percent of personal income taxes to schools. If taxes grow faster than 9 percent in the two-year budget cycle, the extra would go to school-improvement grants and a rainy-day fund to protect schools in an economic downturn.

While there were some economic analyses done of the measure at the time that showed this would create a dedicated source for school funding, it would likely also create a ceiling of funding for schools. The issues people pointed to were estimates that showed what happened when income taxes shrunk. While there was a certain percentage dedicated to schools, it could go down, overall, depending on what was happening in the economy and with Oregon income taxes at any given time.

PROS:

- Gave a dedicated amount of personal income taxes to fund schools
- Could be enacted by the legislature
- Gave growing tax collections to school improvement grants and a rainy day fund
- Provided stability in a revenue source

CONS:

- Normal allies in school funding issues (public employee unions, social service groups and advocates for other programs) would likely oppose a dedication of income taxes to schools
- Tied to income taxes and the economics inherent in the income tax system
- Does not provide any additional revenue for other vital state services

The workgroup spent a considerable amount of time discussing and weighing each of these proposals to see if the proposal would provide a stable, adequate, equitable and dedicated source of revenue to public schools in Oregon. Additionally the workgroup discussed whether the various proposals would be politically viable either in the Legislature, or by a vote of the people. For example, while a retail sales tax seems to be the most common sense approach to this problem it has been voted down nine times by Oregonians and does not poll well with the electorate today. Also, changes to Oregon's complex property tax system seems to be an approach that would work well, but polling indicates it is very likely to be defeated by voters since all property tax issues require a constitutional amendment and a statewide vote. A majority of the workgroup believes a mixed approach of several of the options discussed above meet the criteria for OSBA to consider as a package of solutions for revenue reform and a beginning point of the larger statewide conversation on the topic.

Recommendations

After reviewing and discussing the various proposals, the workgroup came to consensus that, at a minimum, any plan must meet the following criteria:

- All the new revenue generated from any revenue reform must be dedicated to public K-12 schools; and
- In addition to the amount of funds appropriated to the State School Fund for the 2015–2017 biennium (approximately \$7.4 billion) the revenue reform plan must generate between \$1.5 and \$2 billion in new revenue; and
- Require the Legislature to fund public schools in Oregon at the levels they themselves have identified as the amount necessary to provide the type of education our public school students deserve: and
- Be supported by school board members and a broad coalition of groups, entities and individuals to be politically viable.

With these criteria as a backdrop, the workgroup puts forward the following recommendations for consideration by OSBA members and the broader public as a starting point to begin the tough, but necessary conversation related to revenue reform and how Oregon could fund its public schools.

1. Amend Article VIII, Section 8, subsection 1 of the Oregon Constitution.

Currently this portion of the Constitution reads:

(1) The Legislative Assembly shall appropriate in each biennium a sum of money sufficient to ensure that the state's system of public education meets quality goals established by law, and publish a report that either demonstrates the appropriation is sufficient, or identifies the reasons for the insufficiency, its extent, and its impact on the ability of the state's system of public education to meet those goals.

The proposed amended language would read:

(1) The Legislative Assembly shall appropriate in each biennium a sum of money sufficient to ensure that the state's system of public education meets quality goals established by law.

This would eliminate the “out” the Legislature has to write a report instead of actually funding the goals that the Legislature has adopted through the Quality Education Commission and meet the legislatively adopted goals of 40-40-20 by 2025.

2. Additional Revenue - \$1.5 – \$2.0 Billion (Net to public schools)

The workgroup recognized that in order to meet the recommendation outlined in #1 above the state would need an additional \$1.5-\$2 billion in new net revenue dedicated to public K-12 education. While a final legislative proposal to raise revenue could raise more than the \$1.5 - \$2.0 billion to help fund other state services, the workgroup recognizes that minimally a proposal would need to be able to fund the requirements of the Quality Education Model.

In order to accomplish this, the workgroup initially suggested enacting a Commercial Activity Tax (CAT) on all businesses with sales of over \$1 million of approximately .70%. This proposal would raise approximately \$3,518,660,000 (\$3.519 billion) for the 2017-2019 biennium. While there was not complete consensus on using this type of CAT to raise the necessary funds, there was consensus that this is the necessary amount.

A majority of the workgroup did believe that by modifying the “Hass Plan” to a larger amount the plan would be viable and, at a minimum, a place to begin the conversation with OSBA members and other stakeholders. However, after seeking school board members input through the Fall Regional meetings it was clear that many members did not either understand the concept clearly, or would rather have a sales tax enacted to raise the necessary revenue.

After carefully reviewing the comments received from across the state at the OSBA Fall Regionals, the workgroup recommends that OSBA, in conjunction with a variety of partners, develop a poll of voting Oregonians to gauge whether a sales tax or a commercial activity tax is a politically viable option to be considered. Assuming that Ballot Measure 97 fails, Oregon will still have a revenue gap that needs to be addressed. Considering the political battle that was waged in relation to Ballot Measure 97, the workgroup believes that it is prudent to gauge the political will of Oregonians and create a revenue reform plan that will have the support of voters and has the likelihood of being enacted.

3. Revenue off-sets

The workgroup discussed that in order for any type of new revenue growth to be politically viable there would need to be some revenue off-sets along the line of what Sen. Mark Hass described in his plan. Under his plan he eliminated the corporate income tax, increased the Earned Income Tax Credit to 18% of the federal credit, and doubled the standard deduction for the personal income tax. The workgroup agreed that these were acceptable. The total off-set under this scenario is approximately \$1,586,000,000 (\$1.586 billion) for the 2017-2019 biennium. Therefore the approximate net revenue for the 2017-2019 biennium would be \$1,932,660,000 (\$1.933 billion).

While the workgroup still believes that this may be a crucial element in a proposed revenue reform plan, the comments received this fall from OSBA members indicate that this is also an issue that should be studied further and be part of any poll that is put into the field on a revenue reform plan.

4. Cost Drivers

The workgroup discussed and recognized that there are significant cost drivers within the existing system that have the potential to nearly or completely eliminate the value of any increased revenue that may come into the system, and that these cost drivers need to be addressed in order to ensure a majority of the new revenue go towards the classroom and student achievement gains.

To that end OSBA will actively pursue modifications to the PERS system to help reduce the unfunded actuarial liability (UAL) of the system through legislation developed with outside strategic partners, which will withstand constitutional challenges. Additionally, OSBA will work administratively with PERS and the Oregon Education Benefit Board (OEBB) to ensure that actions taken by the systems do not increase costs that would divert new revenue away from students and their classrooms. Finally, OSBA will forcefully advocate with our statewide policy makers (Governor, Legislature and other state agencies) to not enact or change laws, rules or policies that create new unfunded mandates that clearly divert funds away from the classroom and direct efforts to increase student achievement.

5. Accountability

In order to increase the political viability of the revenue plan the workgroup discussed several options to ensure that there was some level of “accountability” to tax payers and policy makers. The final

discussion centered on each local school district determining what was needed in their school district to increase student achievement tied to meeting the statewide of goals of 40-40-20 by 2025. This could mean a better graduation rate, reducing the opportunity/achievement gap, lowering the drop-out rate or any other issue the district identified as necessary to ensure they were meeting the goals set by the Legislature and the Quality Education Commission as envisioned in the first recommendation above.

The main thrust was that this needed to be determined locally and the district should be able to show some growth in the area they select, but that there was not going to be a statewide cookie cutter approach to tell school districts what they needed. Rather, the school districts would tell the state and their local patrons what they planned to do with the new revenue (after some level of local discussions) and how that would impact student achievement and how the district would report that achievement. Each district may approach this differently, but whatever plan they choose must drive student achievement and they must be accountable to some level of growth in student achievement in the model they choose. The workgroup also recognized that this growth would not occur overnight, but should be demonstrable to a broad group of constituencies through continued growth toward the district's identifiable student achievement targets. The workgroup acknowledged that several decades of underfunding our public schools cannot be turned around overnight, but rather school districts working with parents, students, taxpayers, employees and other local community groups can best decide what actions need to be taken and how to measure progress.

6. Strategy

The workgroup spent some time discussing how to ensure that any plan created be implemented – essentially some discussion around a strategy to align proponents behind any plan. Clearly OSBA cannot do this work in isolation but as has been stated by this group and others, OSBA should be *the dynamic leader* on this topic. Our members are asking us to the lead and we have yet to see any leadership at a statewide level that would dedicate the necessary revenue to public K-12 schools that is stable, adequate and equitable.

In order for this effort to be successful we first need to ensure school board members from across Oregon are supportive. We heard through our Fall Regional meetings last year that school board members and school administrators want revenue reform if it would provide stable and adequate funding dedicated to public schools. OSBA would again use the Fall Regional meetings as a major outreach to our members for their input and buy-in to any plan. Additionally, we would notify our members through our normal resources of any plan adopted by the OSBA Board, as well as the OSBA Board and OSBA LPC discussing this within their respective regions.

After reviewing the feedback received at the Fall Regional meetings, the workgroup feels strongly that for OSBA members to have “buy-in” to any revenue reform proposal OSBA should meet with, and work with, a broad coalition of partners to develop a poll to measure Oregonians support for a revenue reform plan. The poll would seek to gauge the support of a plan that meets the recommendations outlined above, and ask Oregonians which revenue raising measure/plan they support – either a sales tax or a commercial activity tax to produce the additional revenue. While there may be groups who ultimately oppose any revenue reform plan, the workgroup believes that the discussion needs to occur and our state-level policy makers and Oregonians need to be engaged in a thoughtful conversation and process to develop a plan that makes sense and can have real impact on the lives of our schoolchildren - now and in the future.

OSBA will then need to build a coalition of groups to support the plan. These groups would include, but not be limited to: statewide policy makers, the Oregon business community (OBC, OBA, Oregon Farm Bureau and AOI), education partners (COSA, ChalkBoard, Stand for Children, OEA, AFT-Oregon, PTA and OSEA) and a variety of other entities. In order to facilitate this outreach and gain support for a plan, the group began discussing holding and convening an “Education Summit” in early 2017 to build momentum into the 2017 legislative session and beyond. The idea of a summit is to be like what OBC does each year for the Oregon Business Plan and hopefully build the necessary partners and momentum for the plan.

Next Steps

This work, and this report, began as a part of the discussion during the OSBA Board of Director’s retreat in June of 2015 which was adopted by the OSBA Board as one of the “Visionary Areas” and “Four Bold Steps” that OSBA would implement as part of the association’s strategic plan (See Exhibit O). This conversation was continued with the broader OSBA membership through the 2015 Fall Regionals with the outcome being OSBA’s membership wanted revenue reform that provides for stable, adequate and equitable funding for public schools in Oregon. The workgroup has worked diligently to create recommendations to meet these needs and desires. While the workgroup attempted to reach consensus on all the points of the recommendations, there were members of the workgroup who could not agree to every point in the recommendations. However, a majority of the workgroup did support the recommendations as outlined above.

The workgroup acknowledges there may be many OSBA members who cannot agree to all of the recommendations, but this report is structured to continue the broader conversation among OSBA members on revenue reform. It is the intent of the workgroup to share this report and the recommendations with the OSBA Board, Legislative Policy Committee and the full membership to seek input, suggestions and potential changes to the recommendations – with the ultimate goal being a revenue reform package that can be supported by OSBA and its members as we continue the conversation towards the 2017 legislative session and beyond.

The workgroup recognizes this is a long-term proposition and something must be done to ensure that the existing paradigm does not continue. School board members are poised to be the leaders on this issue and force the conversation and difficult decisions – Oregon’s schoolchildren cannot wait. As stated throughout *The Promise of Oregon* campaign materials – **“Today’s students are Oregon’s greatest natural resource. We as Oregonians must invest in our public schools so the next generation can reach its potential.”**

This report and the recommendations contained within are designed to begin these conversations with school board members and public school supporters across the state.