

## HOUSE REVENUE COMMITTEE

MARCH 15, 1999 ñ 8:30 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

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Members Present: Rep. Ken Strobeck, Chair

Rep. Anitra Rasmussen, Vice Chair

Rep. Deborah Kafoury

Rep. Jeff Merkley

Rep. Diane Rosenbaum

Rep. Lane Shetterly

Rep. Max Williams

Rep. Bill Witt

Absent: Rep. Jim Welsh

Staff: Paul Warner, Legislative Revenue Officer

Steve Meyer, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

Witnesses: John Young, NW Regional Education Service District

Sally Bunnell, NW Regional Education Service District

David Campbell, Clackamas Education Service District

Frank McNamara, Confederation of Oregon School Administrators

Arlene Collins, Multnomah Education Service District

Jerry Bennett, Oregon Association of ESDs

Don McIntire, Gresham

**TAPE 087, SIDE A**

005 Chair Strobeck Called meeting to order at 8:35 a.m. Opened public hearing on HB 2566.

**PUBLIC HEARING n HB 2566**

013 Steve Meyer Reviewed HB 2566. Bill prohibits distribution of State School Fund dollars to Education Service Districts in 1999-01.

Directed members' attention to handout of slide show (**EXHIBIT 1**), Revenue Impact Statement (**EXHIBIT 2**), ESD Revenue Estimates comparing 1998 to 1999 (**EXHIBIT 3**).

040 Chair Strobeck Explained intent behind introducing this bill. This is part of a group of bills that would eliminate the student weights in the distribution formula and have Education Service Districts' money be distributed through school districts, not through the ESDs. This would put school districts in position of being service purchasers for ESDs. Intent is not to eliminate ESDs.

049 Vice Chair Rasmussen Spoke in support of the measure. See "Memo" from Chair Strobeck and Vice-Chair Rasmussen (**EXHIBIT 4**).

Since passage of Measure 5, lawmakers haven't done much work for ESDs. Memo takes strong look at what state wants ESD to do. Small school districts are dependent on ESDs to provide services. In other districts, there is a sense of dissatisfaction. Rep. Rasmussen would like to see an interim task force to take a look at ESDs. Task force would report back during 2001 session.

104 Vice Chair Rasmussen Pointed out in Meyer's chart (exhibit 3), there are ESDs with a very low ADMw number. Would like to see the bottom four districts up with the others. Want to address inequities in ESD formula. Concluded, memo is meant to be a discussion document.

135 John Young Spoke in opposition to the measure as written, but in support of concepts outlined in Memo (exhibit 4). See written testimony paraphrased (**EXHIBIT 5**).

178 Young Beaverton School District is largest user of ESD services. Districts must pay money out of their school district pockets to achieve the same level as their neighbors receive in a higher funded ESD. Those funds could be spent on classrooms, teachers, etc.

Concepts outlined in Memo are good starting point for this issue. Encouraged formation of task force.

207	Sally Bunnell	Expressed support for concepts in Memo.
215	Chair Strobeck	Has heard from districts that ESDs are not providing services that are useful. Asked Young what state should do to make ESDs more customer-oriented to school districts?
229	Young	<p>Services provided by ESDs should be approved by 2/3 of school board members. That process brings in direct local control. Also, suggested contracted services.</p> <p>Once Oregon achieves equity in service and funding, issues will go away.</p>
275	Vice Chair Rasmussen	Asked Young's opinion on who should serve on task force.
273	Young	Would prefer a mixture of involvement, including legislators.
399	Bunnell	Asked lawmakers to include ESD board members for proposed task force.
314	David Campbell	<p>Appreciates committee's willingness to look at issue from a broad perspective, long-term solution. ESDs bring opportunity for regionally based, efficient program delivery. Areas where system doesn't work must be fixed.</p> <p>Difficulties if state moved away from support: ESDs would be more limited, would move away from encouraging efficient, regionally based programs.</p>
416	Campbell	Summarized, local school districts are primary decision-makers about what is provided and delivered. Voiced support for committee's approach to issue.

**TAPE 088, SIDE A**

020	Frank McNamara	Spoke in opposition to the measure as written, and in support of amendments proposed in Memo (exhibit 4). Confederation of School Administrators (COSA) has looked at issue of equity and holds position that an interim study is needed with a directive to look at role of ESDs, to determine what core services the regional service agents can and should provide, what regional services state should support. Primary roll of ESDs has been to provide regional services. A significant part of service has been to provide services to small and rural districts.
060	McNamara	Study is critical. But lawmakers must consider inequities among the ESDs from \$52 to \$2,000 per ADMw. There is a court challenge on the issue of equity among ESD groups. Urged lawmakers to address equity issue during interim. Will present amendments to support COSA's position.

085	Rep. Shetterly	Suggested, COSA is presenting a third option for Memo.
108	Rep. Witt	If sole purpose of ESDs is to provide services to school districts, what is the problem with the bill the way it's written? It gives school districts opportunities to contract with ESDs for services they want.
121	McNamara	Primary problem is rapidity of dislocation of the funding and the ability of districts to meet current contract agreements. Mostly smaller districts would feel effect.
141	Rep. Witt	Wouldn't this bill create more of a free market for school districts and therefore create more efficiency in services?
147	McNamara	In the long run it would create free market, but not immediately. Currently, only way ESDs have authority to deliver services are by contracts or by resolutions. There is a market element in the delivery of services right now.
179	Vice Chair Rasmussen	Proposal does not rule out free market approach; it gives interim task force options to consider.
186	McNamara	COSA's position is to look at how to deliver regional services efficiently, not how to maintain and hold onto existing system. Timing is what COSA is most concerned with.
198	Rep. Witt	Assumes dollars that would no longer go to ESDs would go to school districts.
204	Arlene Collins	Multnomah ESD is highest receiving agency in the state, and provide the most services. Board agreed to this memo. Interim task force is a good compromise, will give a chance to study it. Suggested inclusion of ESD board members on the interim committee.
229	Vice Chair Rasmussen	Noted, there are several bills about ESD restructuring, including one by Rep. Kafoury.
234	Jerry Bennett	<p>Oregon Association of ESDs is willing to help in this process. Suggested consideration of local option as another way to gain local control. Has developed a comprehensive file on studies that shows economies of scale on that are created by regionizing.</p> <p>Concerning Rep. Witt's questions: When dealing with regional services and economies of scale on ESDs, it is necessary to rely heavily upon entrepreneurs' partnerships with counties, state, etc. Tremendous cash flow comes into communities which then goes into school districts. Quite a difference in amount of money that will be returned to a school district.</p>

308	Bennett	<p>All school districts contribute to the ESD. Soon, all districts will be connected on a statewide computer network. ESD develops this network and nurtures it. If state takes away funding that allows them to be entrepreneurial, it limits capacity to deliver service at a higher level.</p> <p>Supports ideas stated in memo.</p>
318	Rep. Witt	<p>Bill does not take away funding, it allows ESDs to contract with school districts. It may be that ESDs become stronger, not weaker.</p>
342	Bennett	<p>Without clientele, a business will close down.</p>
362	Rep. Witt	<p>That's how most businesses work. Believes ESDs, when managed well, will do well in that environment.</p>
383	All	<p>More questions and discussion on ESD becoming competitive.</p>

**TAPE 087, SIDE B**

019	Young	<p>Noted, under HB 2566 as currently written, ESDs would maintain their current tax rates. Those tax rates are extremely inequitable. This bill would not solve the inequity problem, but would help.</p>
040	Chair Strobeck	<p>Closed public hearing on HB 2566. Opened public hearing on HB 2752 and HB 2753, local option bills.</p>

**PUBLIC HEARING re HB 2752, HB 2753**

046	Don McIntire	<p>Spoke in opposition to the measures. These bills create a new avenue for taxation. McIntire was involved in passage of Measure 5 and Measure 50. Measure 50 was supposed to be a simplification of Ballot Measure 47. It wasn't. Asked committee to table measure. Oregon is having good economic times, but there is still an incipient tax revolt going on. To turn a school board into a taxing authority is astounding. They could levy sales taxes, business taxes, and income taxes.</p>
117	Rep. Witt	<p>Is it justifiable that there is some kind of local responsibility in terms of funding for K-12 education?</p>
129	McIntire	<p>Depends what is meant by "local control." This term led to passage of Measure 5. Local</p>

control really means the ability to raise taxes. If state wanted to engage in real local control, it would send money to parents and let them control how to spend it to educate their young.

- 136 Rep. Rosenbaum Bill does not give authority to impose the tax. It gives school boards the ability to put a tax before the voters. Does he think this bill is too open-ended?
- 143 McIntire When a local option income tax is imposed with voter approval, does it sunset or is it forever? Believes bill gives local school boards the power to tax beyond property taxes.
- 166 Chair Strobeck HB 2752 does this. It has a 10% limit and it sunsets.
- 178 Chair Strobeck Closed public hearing on HB 2752, HB 2753. Adjourned meeting at 9:42 a.m.

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HB 2566, Meyer, Education Service Districts (ESDs), 4 pp.
2. HB 2566, Meyer, Revenue Impact of Proposed Legislation, 1 p.
3. HB 2566, Meyer, ESD Revenue Estimates, 1 p.
4. HB 2566, Rasmussen, Memo re: ESD Funding, 4 pp.
5. HB 2566, Young, House Revenue Committee Testimony, 1 p.
6. HB 2566, Hill, Lake County Education Service District, 3 pp.