



November 2019

**Joint Interim Special
Committee on Public
Education Appropriation**

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Report on Adequacy of
Public Education Funding
As Required by Article VIII,
Section 8, of the Oregon
Constitution

2019-2021 Education Budget

Executive Summary

This report meets the requirements created by Ballot Measure 1 (November 2000), codified in Article VIII, Section 8 of the Oregon Constitution, which calls upon the Legislative Assembly to supply sufficient appropriations for the state's public education system and issue periodic reports to demonstrate the sufficiency or insufficiency of funds. Oregon law requires that the Joint Committee on Public Education Appropriation rely on the findings of the Quality Education Commission to determine what amount would be sufficient. If the amount is insufficient, the Legislative Assembly's report must include the extent of the insufficiency; the impact of the insufficiency on the state's ability to meet quality goals; and the effects of the insufficiency.

For the 2019-2021 biennium, full funding of the Quality Education Model would require a State School Fund allocation of \$10.73 billion. During the 2019 legislative session, the legislative assembly provided \$9.0 billion for the State School Fund and established a modified corporate activity tax (MCAT) for the purpose of funding education. The legislature anticipates the new tax generating \$1.6 billion in revenue for the current biennium directed toward funding education in the state, with over \$0.6 billion of the new revenue allocated as part of the State School Fund, at least \$0.7 billion going to districts in the form of grants, and the majority of the remaining funds generated by the MCAT directed to early learning programs.

The 2019-2021 Legislatively Adopted Budget represents a significant narrowing of the insufficiency reported in past years, from 23.9 percent in the 1999-2000 biennium to 9.8 percent, or \$800 million, for the current biennium. The factors contributing to the insufficiency continue to be the effects of Measure 5's (1990) limits on property taxes; competition for limited state resources with programs such as social services and criminal justice; and increasing annual costs of providing educational services, such as salaries, Public Employees Retirement System contributions, health care benefits, and increasing student needs.

The Quality Education Commission predicts that graduation rates would rise faster and to higher levels with funding at the level required by the Quality Education Model. At full funding, the predicted graduation rate averaged for all students reaches nearly 90 percent by the 2024-2025 school year. Without full funding, the predicted graduation rate averaged for all students is forecast to be about 83 percent by the 2024-2025 school year, a difference of 7 percent.

This report summarizes Oregon's education quality goals, describes the state's K-12 funding for the current biennium, highlights the recently enacted Student Success Act, identifies key factors that contribute to insufficient funding, enumerates the cost drivers affecting public education, and shows the effects of the funding insufficiency on the state's graduation rate.

Table of Contents

Requirements of Ballot Measure 1 and Committee Charge	2
Oregon’s Education Quality Goals	4
Quality Education Commission	5
Required Funding and Strategies.....	7
2019-2021 K-12 Appropriation	8
Student Success Act	15
Sufficiency Determination.....	16
Factors Leading to Insufficiency.....	18
Impact of Insufficiency.....	22
Post-Secondary Quality Education Goals	24

Requirements of Ballot Measure 1 and Committee Charge

The purpose of this report is to address the requirements in Ballot Measure 1 (November 2000) and the statutes specifying the content of the reporting requirements in ORS 171.857. Ballot Measure 1 requires the Legislative Assembly to supply sufficient appropriations for the state's public education system to meet quality goals established by law, and requires publishing a report that demonstrates the sufficiency or insufficiency of funds. ORS 171.857 requires that the Joint Committee on Public Education Appropriations rely on the findings of the Quality Education Commission to determine what amount would be sufficient. If the amount is insufficient, then the report must include the extent of the insufficiency; the impact of the insufficiency on the state's ability to meet quality goals; and how the insufficiency may affect current practices, best practices, and student performance. The statute addresses public post-secondary education by requiring the legislative assembly discuss funding of quality goals, if quality goals for post-secondary education exist in statute.

Oregon voters enacted Ballot Measure 1 in November 2000:

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.¹

The 2001 Oregon Legislative Assembly enacted ORS 171.857 specifying the content of the report. The statute reads, in part:

. . . The Legislative Assembly in the report shall: [d]emonstrate that the amount within the budget appropriated for the state's system of kindergarten through grade 12 public education is the amount of moneys as determined by the Quality Education Commission . . . that is sufficient to meet the quality goals; or [i]dentify the reasons that the amount appropriated for the state's system of kindergarten through grade 12 public education is not sufficient, the extent of the insufficiency and the impact of the insufficiency on the ability of the state's system of kindergarten through grade 12 public education to meet the quality goals. In identifying the impact of the insufficiency, the Legislative Assembly shall include in the report how the amount appropriated in the budget may affect both the current practices and student performance identified by the Commission . . . and the best practices and student performance identified by the Commission. . . .

Regarding post-secondary public education, ORS 171.857 states:

The Legislative Assembly shall identify in the report whether the state's system of post-secondary public education has quality goals established by law. If there are quality goals, the Legislative Assembly shall include in the report a determination that the amount appropriated in the budget is sufficient to meet those goals or an identification of the reasons the amount appropriated is not sufficient, the extent of the insufficiency

¹ Or. Const. art. VIII sect. 8(1).

and the impact of the insufficiency on the ability of the state's system of post-secondary public education to meet those quality goals.

In 2008, *Pendleton School Dist. v. State of Oregon*² 18 school districts and seven public school students sought a declaratory judgment requiring that the Legislative Assembly fund the Oregon public K-12 school system at a level sufficient to meet the quality educational goals established by law as well as a mandatory injunction directing the Legislative Assembly to appropriate the necessary funds. The trial court granted summary judgment against the plaintiffs, and the Court of Appeals affirmed. The Court of Appeals ruled in 2009 that “the legislature has failed to fund the Oregon public school system at the level sufficient to meet the quality education goals established by law and that plaintiffs were entitled to a declaratory judgment to that effect. However, we also conclude that, in adopting Section 8, Article VIII, Oregon voters did not intend to achieve the level of funding required in that constitutional provision through judicial enforcement.”³

The Joint Interim Special Committee on Public Education Appropriation scheduled three meetings during the 2019-2020 interim.

On September 17, 2019, the committee met to receive an overview of Ballot Measure 1, input from agencies and co-chairs of the Quality Education Commission (QEC), and information from the Legislative Fiscal Office. The information provided included the sufficiency level for the Quality Education Model, adopted and appropriated budget, and funding levels for public education.

On November 18, 2019, the committee met to review the draft report and discuss needed changes. The committee recommended changes based on their review and input from stakeholders.

On November 19, 2019, the committee met to review the changes and adopt the report.

² *Pendleton School Dist. v. State of Oregon*, 220 Or. App. 56, 185 P.3d 471 (2008).

³ *State of Oregon*, 345 Or. App. 596, 200 P.3d 133 (2009).

Oregon's Education Quality Goals

Quality goals for kindergarten through grade 12 (K-12) public education were established by the legislature in 2001 and are codified in ORS 327.506. These goals include:

- To equip students with the academic and career skills and information necessary to pursue the future of their choice through a program of rigorous academic preparation and career readiness;
- To provide an environment that motivates students to pursue serious scholarship and to have experience in applying knowledge and skills and demonstrating achievement;
- To provide students with the skills necessary to pursue learning throughout their lives in an ever-changing world; and
- To prepare students for successful transitions to the next phase of their educational development.⁴

⁴ ORS 329.015

Quality Education Commission

In 1997, then Speaker of the House Lynn Lundquist created a council to outline an approach to determine the cost of a quality K-12 public education. This effort was endorsed by Governor John Kitzhaber and subsequently codified by the Legislative Assembly in 2001. The council became the Quality Education Commission (QEC).

Under ORS 327.506, the QEC is directed to take three actions:

1. Determine the amount of moneys sufficient to ensure that the state's system of K-12 public education meets the quality goals.
2. Identify best practices that lead to high student performance and the costs of implementing those best practices in the state's K-12 public schools.
3. Issue a report to the Governor and the Legislative Assembly, prior to August 1st of each even-numbered year, that identifies:
 - Current practices in the state's system of K-12 public education;
 - Costs of continuing current practices;
 - Expected student performance under current practices;
 - Best practices for meeting quality goals;
 - Costs of implementing best practices;
 - Expected student performance under best practices; and
 - At least two alternatives for meeting quality goals.

Quality Education Model

The Quality Education Model (QEM) was first developed in 1999 as a tool to meet the responsibilities of the QEC and to evaluate educational practices and estimate the level of funding required to meet the state's goals. The QEM today combines a "Costing Model" which estimates the cost of a set of inputs to run a "highly effective system of schools," and a "Student Achievement Model" which estimates the effect of initiatives and programs on student outcomes. The QEM uses the concept of prototype schools (elementary, middle, and high schools) to estimate the resources required to meet academic standards and performance goals. The characteristics of these prototype schools reflect literature-based staffing needs, sufficient funds for this staffing, professional educator development, operations and maintenance costs, and other factors that affect student outcomes and costs. The schools also assume a student population that reflects the characteristics of the statewide population of students (e.g., special education, English language learners, students in poverty). The prototype schools are not intended to be prescriptive nor are schools required to expend funds as recommended by the QEM.⁵

The QEM is updated every two years and generally reflects the most recent data available as well as the most recent research relevant to improving student outcomes. More detail on the QEM can be found in the report released every even-numbered year.

⁵ Quality Education Commission, *Quality Education Model*, 61-63 (2016)..

The Oregon Department of Education (ODE) staffs the QEC and the QEM reports can be found on the [ODE's website](#).⁶

Recommendations: The 2018 QEM report contained four recommendations for improving student outcomes in addition to fully funding the QEM.⁷

- 1. Continue efforts to increase spending for high-quality Pre-K programs.** The QEC cites research showing that high-quality Pre-K programs impact student achievement.
- 2. Raise more revenue.** The QEC found that education funding in Oregon was around nine percent below the national average, a decline from the 1989-1991 biennium, prior to the passage of Measures 5 and 50 and their limitations on property tax.
- 3. Help districts and schools develop Networked Improvement Communities.** The QEC wrote that networks provide a framework for creating coherence in school improvement efforts, and encouraged districts to ensure that leaders at proper levels are delegated authority to make decisions.
- 4. Pay more attention to equity.** According to the QEC, school districts should allocate resources equitably to individual schools to ensure that the distribution of funding, staff, and other resources accounts for the varying levels of need at schools across the district. The QEC encourages districts to ensure that all students read at grade level by third grade, to provide more individualized instruction time, to be responsive to the needs of historically underserved students and students from low-income families, increase efforts to recruit teachers of color, seek out community partners, improve attendance, evaluate the needs of different schools, and develop strategies to improve outcomes for historically underserved populations.

⁶ Oregon Department of Education, Quality Education Commission Reports. <<https://www.oregon.gov/ode/reports-and-data/taskcomm/Pages/QEMReports.aspx>>, visited November, 2018.

⁷ Quality Education Commission, *Quality Education Model Final Report*, 11 (2018).

Required Funding and Strategies

According to the 2018 QEC report, the QEM requires an estimated State School Fund allocation for the 2019-2021 biennium of \$10.73 billion. This amount was determined by estimating the cost of the fully implemented model based on the projected student enrollment and the use of the costs generated by the QEM for the prototype schools. The total required to fully implement the QEM is \$17.78 billion. Estimated non-State School Fund revenues were then subtracted, including property taxes, PERS side account earnings, food service receipts, federal grants, local option levies, grants, and other revenues. The resulting amount is the required State School Fund contribution to reach the \$17.78 billion the QEM needs for full implementation. The \$17.78 billion total and the \$10.73 required State School Fund appropriation represent a 7.7 percent increase from the 2017-2019 biennium. The amount determined for the State School Fund was based on financial information available at the time the 2018 QEM report was published and does not factor in the passage of the Student Success Act in 2019 and the resulting additional revenues allocated to the K-12 system. As shown below, these new resources offset the amount of State School Fund required to meet the QEM's recommended funding levels.

As noted above, the QEC is directed to provide at least two funding strategies for meeting quality goals. The 2018 report included the following two alternatives:⁸

Alternative 1: The first alternative recommended by the QEC is to eliminate the shortfall entirely starting with the 2019-2021 biennium. This would require appropriating the entire \$10.73 billion for the current biennium.

Alternative 2: The second alternative is to phase in the provisions and funding requirements over three biennia. Assuming this strategy is continued, it would require full funding by the 2027-2029 biennium, and require the Legislative Assembly appropriate \$9.5 billion to the State School Fund for the 2019-2021 biennium, \$11 billion for the 2021-2023 biennium, and nearly \$13 billion by the 2023-2025 biennium.

⁸ Quality Education Commission, *Quality Education Model Final Report 39* (2018)

2019-2021 K-12 Appropriation

State resources for K-12 education are distributed to school districts in two primary components: (1) the State School Fund (SSF) which represents the largest share, and (2) the appropriation to the Oregon Department of Education (ODE) which includes a series of “Grant-in-Aid” (GIA) payments for specific purposes such as school nutritional programs, special education, professional development and Career and Technical Education (CTE). Beginning in the second year of the 2019-2021 biennium, GIA payments will also include the distributions of the Fund for Student Success funded through the new corporate activity tax. These GIA payments and programs also include a large amount of federal funding which is distributed to districts and other entities. These GIA payments are used in the determination of the total need as calculated by the QEM. These Grant-in-Aid programs are listed in Figure 7.

Of greatest significance to the sufficiency determination for this report is the amount directed to the SSF and available for distribution to school districts and Education Service Districts (ESDs) through the school revenue formula. The SSF resources are combined with property tax revenues and other local resources allocated to districts. Figure 1 shows the amount budgeted for the current biennium (2019-2021) and the amount for the previous biennium (2017-2019). The amount for the SSF includes the Other Funds limitation for Local Option Equalization grants. The local revenues are estimated and reflect the amount assumed in the funding discussions during the 2019 Legislative Session. During the 2019-2021 biennium, these local revenue estimates will be updated as more up-to-date information is made available.

Figure 1: School Formula Revenue 2017-19 and 2019-21

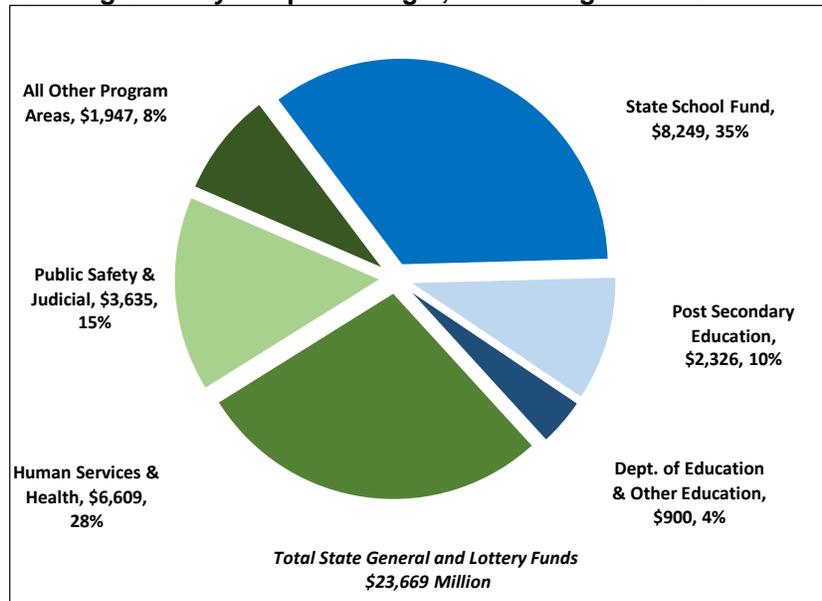
	<i>Millions of Dollars</i>	
	2017-19 Leg. Approved Budget	2019-21 Leg. Adopted Budget
State School Fund Resources		
General Fund	7,653.9	7,718.7
Lottery Funds	464.8	530.1
Student Success Funds	-	643.0
Marijuana Revenues	81.0	103.8
Other State Resources	<u>4.2</u>	<u>4.4</u>
Total State School Fund Resources	8,203.9	9,000.0
Local Revenues (estimated)		
Property Tax & Timber Revenues	3,793.3	4,089.8
Common School Fund	118.5	111.4
Other Local Revenue	<u>69.6</u>	<u>73.1</u>
Total Local Revenue	3,981.4	4,274.3
Total School Revenue Formula Resources	12,185.3	13,274.3

Source: Legislative Fiscal Office

Overall, the SSF represents \$8.2 billion or 34.9 percent of the total \$23.7 billion in combined General Funds and Lottery Funds for the 2019-2021 biennium. Another \$103.8 million of marijuana related revenues and a transfer of \$643.0 million from the Fund for Student Success are combined with the General Fund and Lottery Fund

resources to bring the total amount allocated to the SSF to \$9.0 billion. Total education expenditures, including all K-12 spending as well as post-secondary and early learning, total \$11.5 billion accounting for 48.5 percent of total state General Fund and Lottery Funds resources for 2019-2021. This percentage, as well as the amount in Figure 2, does not include the \$746.8 million in combined Marijuana revenues and transfers from the Fund for Student Success. Figure 2 demonstrates the division of General Fund and Lottery Funds for 2019-21 in the total state Legislatively Adopted Budget. The amount allocated to the Department of Education includes not only resources for the K-12 system but also for early learning and youth development programs.

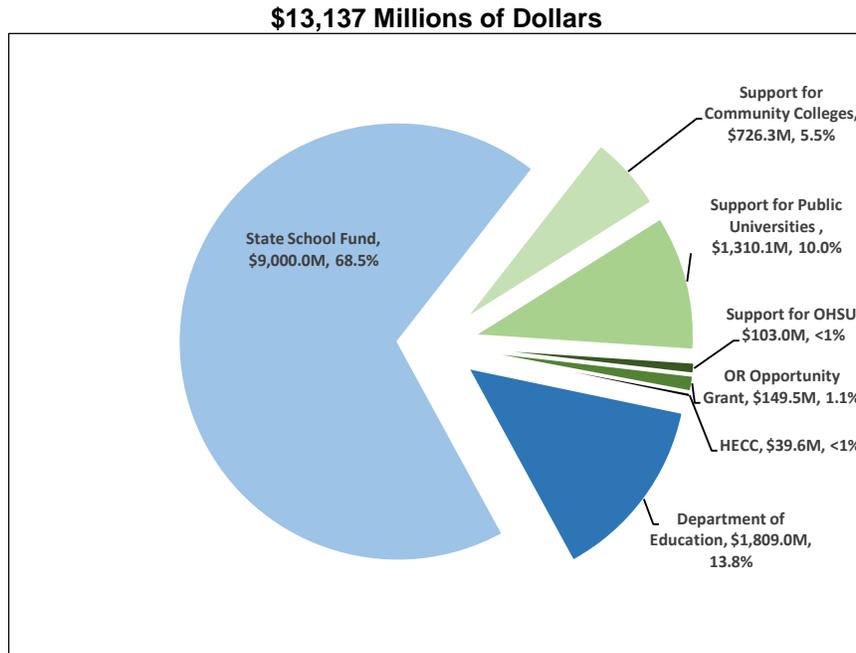
Figure 2: 2019-2021 Legislatively Adopted Budget, Total Budget from General and Lottery Funds



Source: Legislative Fiscal Office

The SSF represents 68.5 percent of the total combined General Fund, Lottery Funds and Student Success and marijuana-related revenues for the entire education program area as shown in Figure 3. Making comparisons to previous biennia is difficult given the almost \$1.6 billion in new Fund for Student Success resources. Most of this new funding is in ODE’s K-12 Grant-in-Aid and Early Learning Grant-in-Aid budgets with \$643 million allocated to the SSF. Most of this \$643 million is backfill for the decrease in the General Fund due to the impact of the new modified corporate activity tax on income taxes and the personal income tax rate reduction enacted at the same time.

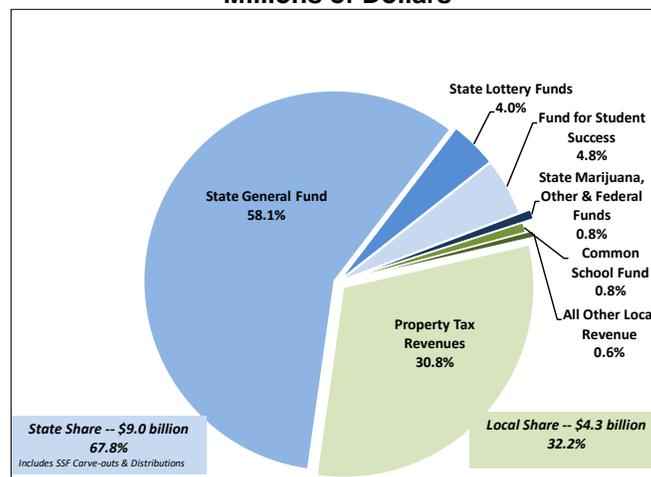
Figure 3: 2017-2019 Legislatively Adopted Budget: Education Program Area From General and Lottery Funds, Student Success & Marijuana Revenues



Source: Legislative Fiscal Office

Overall, general purpose funding for school districts and education service districts depends on both the state contribution through the SSF and the contributions of local revenue including property taxes, timber revenue, and distributions from the Common School Fund. Figure 4 shows state and local resources that are part of the calculation of the formula distribution for 2019-2021 which totals \$13.3 billion. Overall, the state resources that make up the SSF represent just over two-thirds of the total education program area revenues for 2019-2021 (67.8 percent), a slight increase from the 67.3 percent for 2017-2019.

Figure 4: 2019-2021 Legislatively Adopted Budget: K-12 School Formula Resources \$13,274 Millions of Dollars

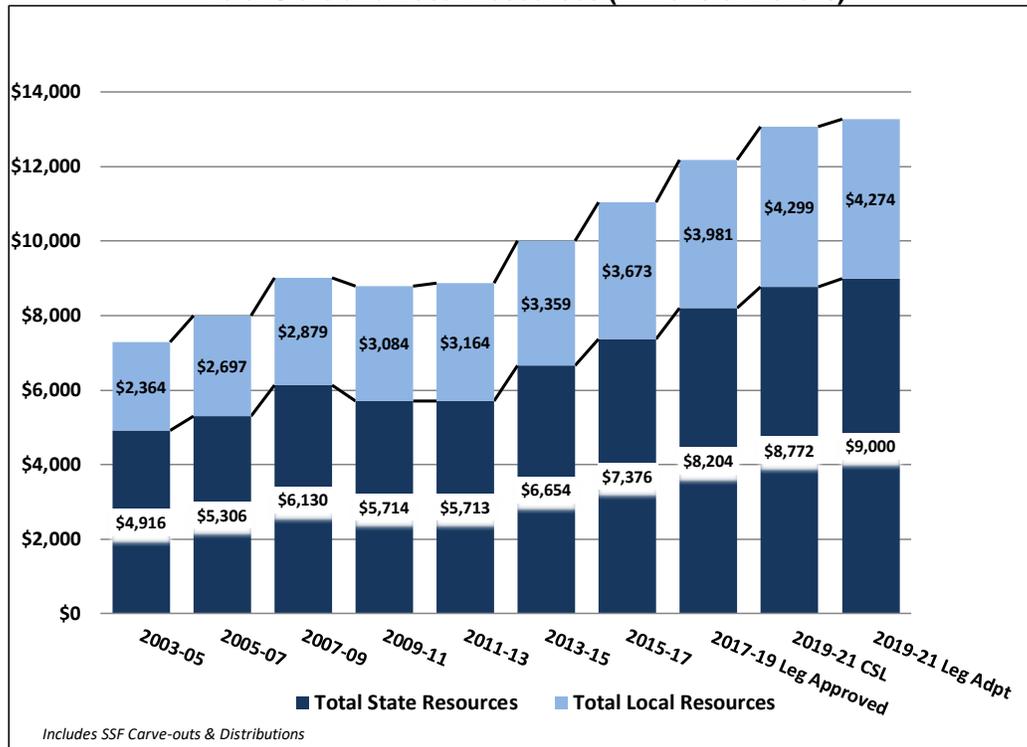


Source: Legislative Fiscal Office

Figure 5 demonstrates the growth of school formula revenues over several biennia. Between 2011-2013 (first biennium coming out of the recession) and 2017-2019, total resources grew by 37.3 percent (average of over 12 percent each biennia) with an additional 8.9 percent growth for 2019-2021. Total state resources grew by 43.6 percent

between 2011-2013 and 2017-2019 while local resources grew by 25.8 percent over the same period.

**Figure 5: School Formula Resources 2003-2005 to 2019-2021
Total State and Local Resources (Millions of Dollars)**



Source: Legislative Fiscal Office

While the vast majority of formula revenue resources available from state and local sources described above are distributed to school districts and ESDs without specific direction on how the resources are to be spent, there are some allocations or “carve-outs” authorized by state law that are directed for specific purposes. Some of these resources are carved out from the SSF prior to calculating the distribution between school districts and ESDs, including educational programs for students in long-term care facilities, the Oregon School for the Deaf, and hospital programs. Other carve-outs are for specific programs such as the Educator Advancement Council or for English language learners. Others are distributed from the specific allocations for districts such as Facility Grants, High-Cost Disability Grants, and Small School Grants. The estimated overall distribution of the SSF and the local resources through the carve-outs and formula are detailed in Figure 6. Over 99 percent of the school formula revenues flow directly to school districts and ESDs.

**Figure 6: K-12 School Formula Distribution
2019-2021 Legislative Adopted Budget (Millions of Dollars)**

Projected Expenditures	
Statewide Uses (0.7%)	Millions of Dollars
Oregon School for the Deaf and Long Term Care	23.0
Pediatric Nursing Program	4.0
Talented and Gifted	0.4
Speech Pathologist	0.2
Virtual School District	1.6
English Language Learners	12.5
10th Grade Assessment	1.0
Office of Educational Facilities & Healthy and Safe Schools	8.0
Educator Advancement Council (formally NQTL)	40.0
Distributed to School Districts and ESDs (99.3%)	
General Purpose & Transportation Grants to School Districts	12,432.4
General Purpose Grants to Education Service Districts (ESDs)	602.5
High Cost Disability Grants	70.0
Additional High Cost Disability Grants from Student Success	20.0
School Nutrition	2.9
Facilities Grants	7.0
Local Option Equalization Grants	4.0
Small School Supplement	5.0
Reserve Account	40.0

Source: Legislative Fiscal Office

While the SSF and associated local revenues make up most of Oregon's K-12 funding, the budget for the Oregon Department of Education (ODE) includes:

- Resources for Grant-in-Aid programs including resources for specific populations (e.g., special education, regional programs, Youth Corrections), specific program areas (e.g., Career Technical Education, student success, professional development), and nutritional programs (e.g., school lunch). This amount has grown significantly for 2019-2021 with the resources from the new Fund for Student Success;
- Additional resources for the operation of the Oregon School for the Deaf beyond the amount “carved out” of the SSF;
- Cost of the staff, operational, and other costs included in the Operations portion of the ODE budget; and
- Debt service and related costs for state-issued bonds, primarily for aid to districts for construction and remodeling of school facilities.

These resources are summarized in Figure 7. Not included in the table are those Grant-in-Aid programs directed to early learning and child care programs as well as for youth development that are included in the overall ODE budget.

Figure 7: Other K-12 Related Spending*
For 2019-21 Legislative Adopted Budget (Millions of Dollars)

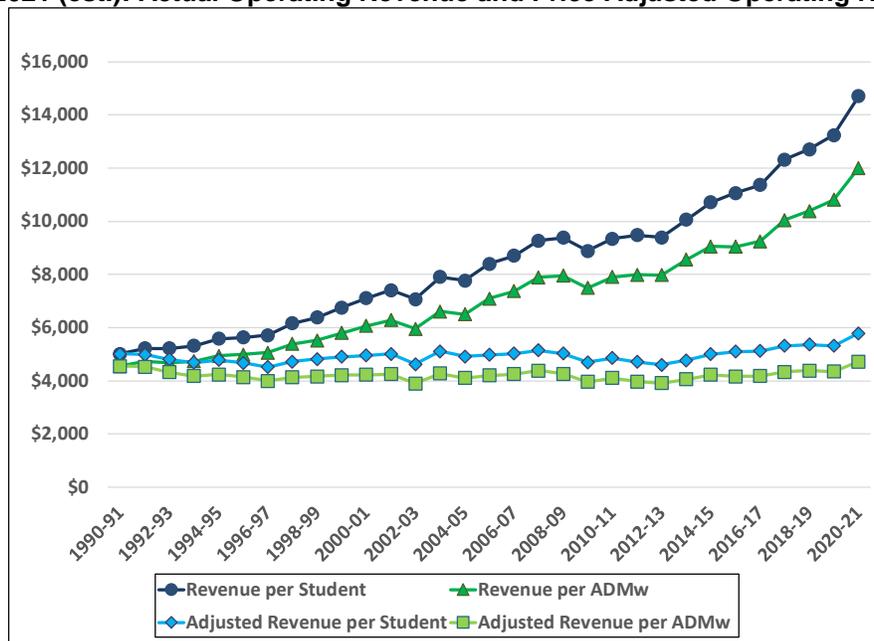
	<i>2019-21 Leg. Adopted</i>		
	General & Lottery Funds	Student Success Funds	Total Funds
Departmental Operations	97.14	21.87	262.20
Oregon School for the Deaf	12.60		19.12
Debt Service and Bonding	31.82		286.82
Common School Fund Distribution			116.26
K-12 Grant-in-Aid Programs			
<i>Student Success Grant Programs</i>			
Chronic Absenteeism Grants	6.47		6.47
High School Success Grants (BM 98)	169.99	133.20	473.18
Student Investment Program - Formula Grants		472.74	472.74
Student Investment Intensive Program Grants		12.00	12.00
Other Student Success Grants	7.73	-	33.85
<i>District Capacity & Technical Assistance Grants</i>			
ESD Technical Assistance Support Grants		24.00	24.00
Statewide School Safety & Prevention Grants		1.73	1.73
Early Warning System Related Grants		2.75	2.75
Other District Capacity & Technical Assistance	-	-	4.00
<i>STEM and CTE Related Programs</i>			
STEM/CTE Regional Network Grants	4.84		4.84
CTE Revitalization Grants	7.02		7.02
STEM/CTE Career Pathway Fund	8.48		8.48
STEM/CTE Innovation Grants	4.60		4.60
Other STEM and CTE Related Programs	3.24	-	36.57
<i>Nutritional Programs</i>			
Federal Reimbursement Programs			407.12
Farm to School Programs	14.66		14.66
Before the Bell Program		1.18	1.18
Hunger Free Schools Program Grants		40.43	40.43
Other Nutritional Programs	1.51	-	4.36
<i>Educator Effectiveness & Professional Development</i>			
Educator Professional Development Grants		15.00	15.00
Educator Advancement Grants			37.90
All Other Educator Effectiveness Programs	0.27	-	38.21
<i>Closing the Achievement Gap</i>			
African American Education Plan Grants	6.23	3.81	10.04
Latino State Plan		1.00	1.00
Native American Related Grants	3.41	3.19	6.60
English Language Learners Grants			10.00
Summer Learning Grants		3.00	3.00
Various Federal Grants Including ESSA			411.68
<i>Specialized Student Service Grant Programs</i>			
Youth Corrections			16.74
Early Intervention/Early Childhood Special Ed	194.37	37.50	265.03
Regional Programs	28.73		28.73
Hospital Programs	1.37		7.57
Long Term Care & Treatment	16.72		41.74
Individuals with Disabilities Act	3.31		274.84
Other Specialized Student Services	4.40	-	49.09

Source: Legislative Fiscal Office

*The General Fund appropriation for Ballot Measure 98 grants in 2019-21 is \$170 million. Due to the way the law is written and accounting practices, these funds must be spent as Other Funds and the Total Funds amount doubles for the General Fund share.

Over time, resources for school districts have remained relatively flat after adjusting for increasing costs. Figure 8 shows that total operating revenues per student and per weighted ADM as estimated by ODE have remained relatively stable since the 1990-1991 school year when indexed or adjusted for cost increases such as compensation-related increases in teacher and other employer salaries, PERS costs, health-related costs, and other operating costs. In this case, operating revenues comprise all sources including federal funds and the Grant-in-Aid resources that are part of ODE’s budget. The estimated amount for the 2020-2021 school year is significantly increased, in large part due to the start of the distribution of Fund for Student Success resources to school districts.

Figure 8: Changes in Total Operating Revenues per Student and ADMw For 1999-2001 to 2020-2021 (est.): Actual Operating Revenue and Price Adjusted Operating Revenue



Source: Oregon Department of Education

Student Success Act

House Bill 3427 (2019) created a new, modified corporate activity tax (MCAT), with revenue from the tax dedicated solely to early learning and the K-12 system. The net new revenue generated by the MCAT will be allocated directly to the Fund for Student Success, to early learning, and to certain statewide education initiatives after a one-time \$200 million distribution to the State School Fund for the 2019-2021 biennium. The bill's revenue impact statement projected an addition of \$1.6 billion in the 2019-2021 biennium and \$2.8 billion in the 2021-2023 biennium. The bill requires at least 50 percent of the revenue be distributed to school districts in the form of non-competitive Student Investment Grants, at least 20 percent to early learning, and up to 30 percent to statewide education initiatives such as equity programs, nutrition programs, summer learning programs, and agency staff for administering various programs funded by the new revenue.

Provisions of the Student Success Act are responsive to the four recommendations made by the Quality Education Commission in addition to fully funding the Quality Education model.

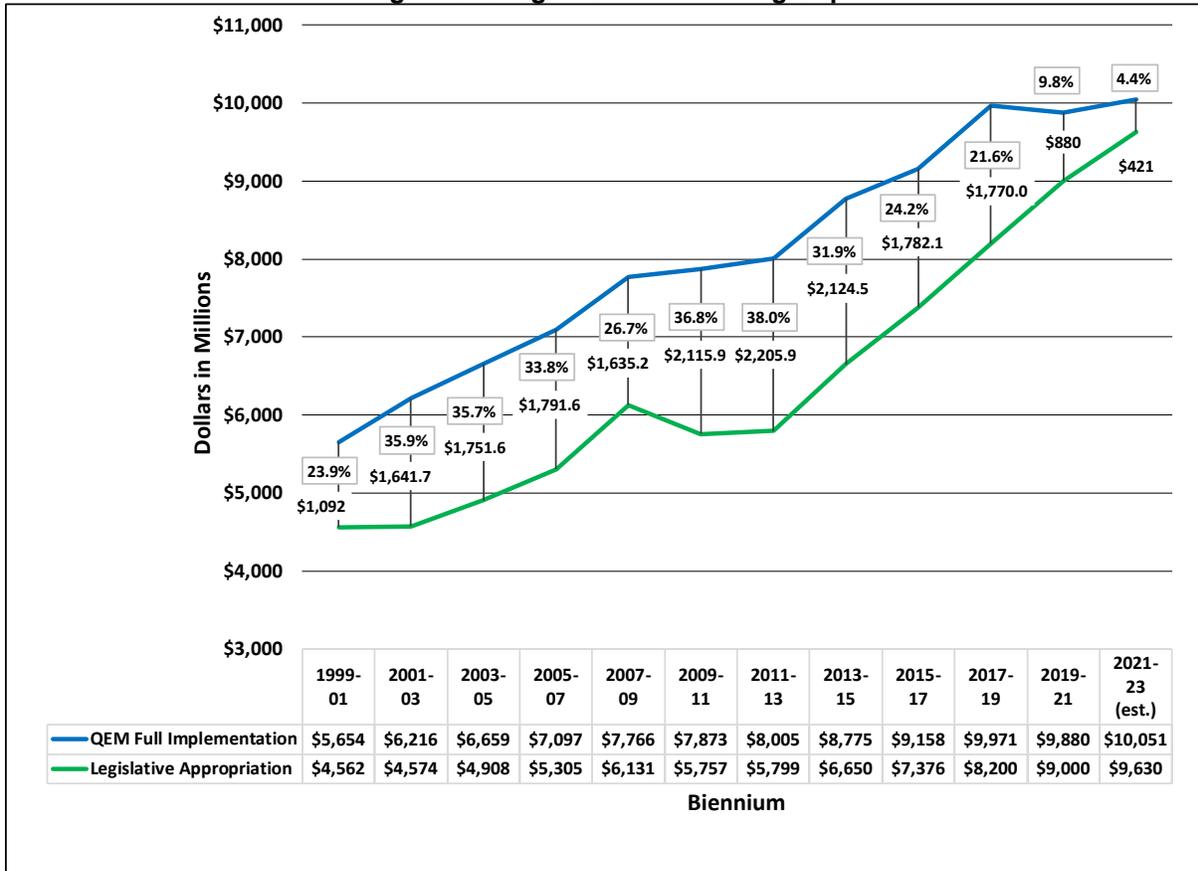
Sufficiency Determination

It is the determination of the Joint Interim Special Committee on Public Education Appropriation that the amount of moneys appropriated for the 2019-2021 biennium for K-12 public education is insufficient to meet the recommended funding levels of the QEC but has improved considerably over the past few biennia. The QEM estimated that a State School Fund (SSF) appropriation of \$9.88 billion for K-12 would be required to reach the state's educational goals for 2019-2021.⁹ This amount is based on the QEM's total cost for the fully implemented model of \$17.78 billion offset by other revenues. These other revenues include property tax and other local revenues, other state resources like the K-12 Grant-in-Aid programs (e.g., CTE, student achievement programs, specific populations-related programs), and various federal program funds (e.g., ESSA, Special Education, nutrition) available to the K-12 system. The 2019-2021 Legislatively Adopted Budget for the SSF is \$9.0 billion total funds, resulting in a gap of \$880 million. In other words, the SSF appropriation would have to be \$880 million or 9.8 percent greater to reach the cost of QEM's fully implemented model. With the passage of the Student Success Act (House Bill 3427) in 2019, over \$700 million in additional non-SSF resources will be available for the K-12 system beginning in the second year of the 2019-2021 biennium. The 2019-2021 biennium is a transitional period, since the full biennial effect of the Student Success Act will not occur until 2021-2023. In that upcoming biennium, the estimated gap will fall further, to \$421 million or 4.4 percent. The 2018 QEM report indicated a larger gap for 2019-2021, but that amount was based on an estimated current service level for the State School Fund and not the final appropriation of \$9.0 billion.

Figure 9 shows the history of the gap since 1999-2001 when the gap was \$1,092 million or 23.9 percent. Since that biennium, the budget for the State School Fund and other resources has never equaled the amount recommended by the QEC. The gap exceeded the 1999-2001 amount of 23.9 percent for every biennium until 2017-2019 when it improved to 21.6 percent. Since then, the gap has continued to narrow to the current 9.8 percent, or \$880 million for 2019-2021.

⁹ Quality Education Commission, *Quality Education Model 8*, (2018).

Figure 9: Oregon School Funding Gap



Source: Legislative Fiscal Office

Factors Leading to Insufficiency

All previous reports required by Ballot Measure 1 have pointed to inadequate revenue growth and cost increases in the delivery of educational services as causes for insufficient funding of education. These pressures continue but as noted in the section above, the passage of the Student Success Act in 2019 and the resulting implementation of the modified corporate activity tax have added resources to the K-12 system, significantly closing the gap between the QEM model and the available resources toward the end of the 2019-2021 biennium and for 2021-2023 when fully implemented.

Revenue-Related Factors

Understanding the state of school funding in Oregon requires a review of past ballot measures, the most important being Ballot Measure 5 (1990). This Measure cut school property taxes dramatically by capping the school property tax rate at \$5 per \$1,000 of market value which significantly decreased the amount of local revenues for schools. State government resources replaced much of the lost revenue over the years since 1990. Before Measure 5, local revenues represented roughly two-thirds of total revenues for the general operating costs of districts while the state contributed roughly one-third. Currently, these proportions have flipped, with the state resources representing approximately two-thirds of the formula revenue and local resources contributing one-third (see above section).

As noted in previous reports, the state revenue system, dominated by the personal income tax, remains volatile over the short-term. During economic downturns, the state has difficulty maintaining adequate levels of funding for all public services, including education. Creation of the Education Stability Fund (2002) and the Rainy Day Fund (2007) have attempted to mitigate negative impacts. These two funds are projected to total \$1.76 billion or 8.4 percent of total estimated General Fund revenues by the end of the 2019-2021 biennium based on the September 2019 revenue forecast. As roughly two-thirds of K-12 operating revenue is derived from state funds, school finances remain vulnerable to the volatility of the personal income tax.

The two-percent personal kicker provisions in the Oregon Constitution, requiring an income tax refund following any biennium in which revenue has exceeded the state's two-year budget forecast by two percent or more, adds to revenue volatility. These refunds have reduced personal income tax revenue for the years in which they were issued. The surplus kicker revenue limit slows revenue growth during periods of economic prosperity for the biennium in which the kicker is paid, such as the 1990s, and reduces revenue further during some recessionary periods such as 2001 and 2009, thereby exacerbating the impact of recessions on the state General Fund. Direct payments are no longer made, and taxpayers are credited for the amount of the kicker due them. For the 2017-2019 biennium, a personal kicker of \$464 million representing the 2015-2017 period was credited to income tax payees. For 2019-2021, the September 2019 revenue forecast predicts that a personal income tax kicker of \$1.57 billion will be credited primarily during the tax filing season in April 2020. This kicker

payment will reduce the available revenues for 2019-2021, which has been factored into the revenue forecasts.

Competing for State Resources

The State School Fund represents the single largest program in the state budget, but there are other important budget areas that also must be funded or whose funding has been affected by outside factors. Public safety and judicial costs represent 15.4 percent of the General Fund and Lottery Funds budget for 2019-2021; reductions to this area are limited by constitutional and statutory requirements that must be met. The best example of this is Ballot Measure 11 which requires minimum sentences for many criminal charges. The other major budget area is Health and Human Services which represents just less than 28.0 percent of the State General Fund and Lottery Funds budget. Numerous federal changes in funding and requirements affect this budget area limiting the flexibility to reduce these costs. Even within the Education budget area there are significant programs which compete for resources with the State School Fund. Ballot Measure 98 (2016) required additional resources for Career and Technical Education programs (CTE), college-level education opportunities, and for drop-out prevention programs. Additionally, state aid for community colleges and public universities has increased faster than overall revenue increases over the past few biennia.

Cost Drivers

There are several factors that have increased the costs of providing educational services to students. These factors can be divided into two general areas: (1) increasing input prices including rising employee compensation, and (2) costs associated with increasing student needs.

(1) Increasing Input Prices

a. Employee Salary and Wages

Overall, salaries and benefits represent approximately 85 percent of school district general operating costs with salaries and wages representing the largest share. Local school districts bargain with their employees for increases in salary and wages. The state does not directly affect these actions, but the size of the State School Fund likely has an impact on these deliberations. Local bargaining results in varying levels of increases in compensation across districts. The calculation of the State School Fund's current service level, in subsequent biennia, factor in average compensation increases across the state. Average teacher salary has grown at an average annual rate of about 1.9 percent over the past 10 years based on information collected from school districts by the Oregon Department of Education. This increase is not based solely on increases in salary and wages, but also reflects any changes in teacher longevity and seniority.

b. Public Employees Retirement System (PERS)

To keep pace with retirement benefits due teachers and other employees, school districts must pay a greater share of their budgets for these costs. The 2019 Legislature did make some changes to PERS to limit employer rates in Senate Bill 1049 (2019), but PERS still accounts for a growing share of school district costs. There are two PERS

rates for districts – the gross rate which represents the total costs that must be paid by school districts, and the net rate which factors in the effect of Pension Obligation Bonds which many school districts issued in past years to offset PERS-related costs. The rates below are state averages while district-by-district rates vary due to the proportion of employees in each pool (e.g., Tier 1, Oregon Public Service Retirement Plan or OPSRP) and other factors. The statewide weighted rates have increased over the past three biennia from an average gross rate of 20.00 percent of payroll (net rate 9.38 percent) in 2015-2017 biennium, 24.15 percent (net rate 13.89 percent) in 2017-2019 to 28.93 percent (net rate 18.27 percent) for 2019-2021. The early estimated rate for 2021-2023 prepared by the PERS actuary and presented to the PERS Board at its October 4, 2019 meeting is 29.46 percent (net rate 19.79 percent), but this number does not factor in all of the changes in SB 1049 and will be changed in the next year based on updated economic and demographic information. Based on average statewide teacher salary data collected by ODE, the average amount per teacher paid by the district (based on the net employer PERS rate) increased from \$5,658 for the 2015-2016 school year and is estimated to be over \$12,000 for the 2019-2020 school year. It must be noted that year-to-year comparisons can change significantly based on rate collaring, legislative changes, and court decisions.

c. Health Benefits

Just like any other private and public employer, school districts face increasing costs for providing their employees' health insurance. Even though actions such as large employer pools and transferring costs to employees can limit increasing district costs, these district costs continue to generally outpace the general inflation rate. Most school districts purchase this insurance through the Oregon Educators Benefit Board and, under current law, the Board is required to adopt policies and practices that are designed to limit the annual increases in premium amounts paid for contracted health benefit plans to 3.4 percent.¹⁰

d. Impact of Other Cost Inputs

While PERS and health benefits have been the major input-related cost increases, others have been mentioned in the past by stakeholders. Teacher shortages may potentially put upward pressure on costs. This may become even more important as funding under the Student Success Act becomes available. School districts have also seen rising costs associated with new assessment requirements. While the state pays for the majority of direct assessment costs, many districts have had to upgrade computer facilities to meet the testing standards. Finally, changing federal requirements in areas like special education, low performing schools, and assessments have led to increasing educational costs over a multi-year period.

e. Increasing Costs Due to Increasing Student Needs

Over time, student demographics and other characteristics have had an impact on the cost of educational services. These are harder to quantify given the lack of reported data at the state level for some of the factors that may contribute to increasing costs. Many of them “earn” additional weights in the school funding formula including special

¹⁰ ORS 243.135

education, English Language Learners, students in poverty, foster care children, and students who are neglected and delinquent.

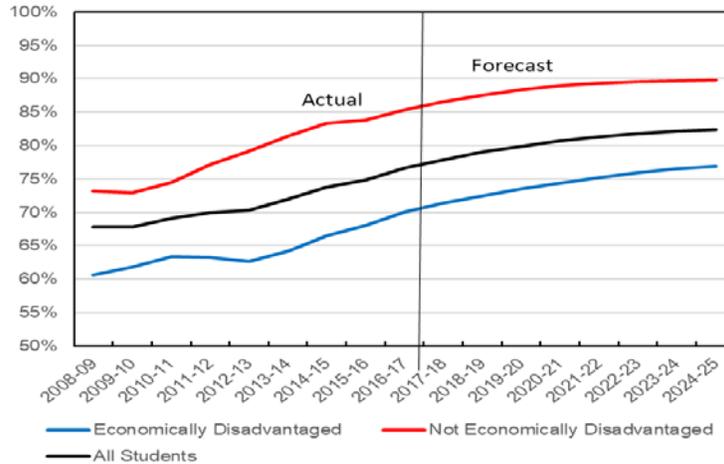
The number of students in poverty and the number of low-income students have increased over the past twelve years as measured by the number of students qualifying for free and reduced-price lunches as reported by the Oregon Department of Education (ODE). For the 2004-2005 school year, 220,000 students qualified, representing just over 40 percent of the total student population. By the 2016-2017 school year, this number had increased to over 317,000, or over 55 percent of the entire student population. Lower income students are more likely to lack basic skills when entering schools, face higher mobility between schools, face greater challenges at home, lack sufficient nutrition, and have insufficient medical coverage. These factors make it harder for students to learn and often increase the need for additional educational services. These same issues also affect homeless students. As reported by ODE, the percentage of homeless students has increased from 3.22 percent (18,165 students) in 2012-2013 to 3.90 percent (22,541 students) in 2016-2017. For 2017-2018, the number dropped to 3.75 percent. In 2017-2018, the largest number of homeless students was in grade 12 with 2,719 students.

The cost of teaching and assisting special education students is generally much higher than other students. The number of school-age special education students has continued to grow slowly, increasing from 13.3 percent of the total student population in the 2012-2013 school year to just under 13.6 percent in 2017-2018. While this growth is not very dramatic, anecdotal information from educators suggests that some of these students are more challenging than in the past, requiring more staff time and more services.

Impact of Insufficiency

The 2018 QEM report predicts that graduation rates would rise faster and to higher levels with increased funding. Figure 10 shows the actual and predicted graduation rates if funding remains at its current level.

Figure 10: Actual and Predicted Graduation Rates at Current Service Level Funding

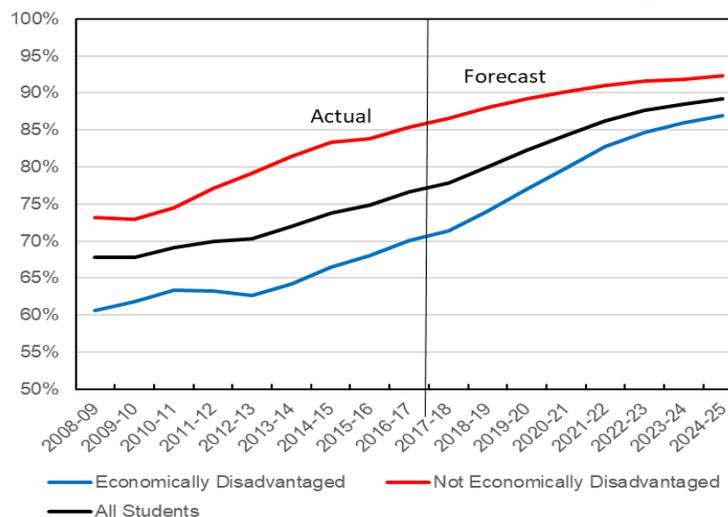


Source: Oregon Department of Education

The \$9.0 billion appropriated to the State School Fund in the 2019-2021 Legislatively Adopted Budget is approximately \$230 million over current service level (CSL), which for 2019-2021 would have been \$8.7 billion. The CSL amount does not include revenues generated by the Student Success Act.

Figure 11 shows the actual and predicted graduation rates if the QEM were fully funded.

Figure 11: Actual and Predicted Graduation Rates at Fully Funded QEM



Source: Oregon Department of Education

At full funding, the predicted graduation rate averaged for all students reaches nearly 90 percent by the 2024-2025 school year. Without full funding, the predicted graduation rate for all students is forecast to be about 83 percent by the 2024-2025 school year, a difference of 7 percent.

Post-Secondary Quality Education Goals

ORS 171.857 requires the Legislative Assembly to identify in this report “whether the state’s system of post-secondary public education has quality goals established by law.”

ORS 350.009 sets out the goals of Oregon’s public higher education:

- (1) Creating an educated citizenry to support responsible roles in a democratic society and provide a globally competitive workforce to drive this state’s economy, while ensuring access for all qualified Oregonians to a high-quality post-secondary education;
- (2) Ensuring a high-quality learning environment that allows students to succeed;
- (3) Creating original knowledge and advancing innovation; and
- (4) Contributing positively to the economic, civic and cultural life of communities in all regions of Oregon.

Senate Bill 253 (2011) revised the mission and purpose of post-secondary education in Oregon by establishing numerical goals to be achieved by 2025: at least 40 percent of adult Oregonians will earn a baccalaureate degree or higher; at least 40 percent will earn an associate degree or post-secondary credential; and the remaining 20 percent will earn a high school diploma, extended or modified diploma, or the equivalent. These goals are commonly referred to as 40-40-20. House Bill 2311 (2017) amended the state’s goal of 40-40-20 to only apply to Oregonians in the state’s public education pipeline starting with the high school graduation class of 2025. Sponsors of the legislation and Legislative Counsel agreed that, due to its aspirational nature, this 40-40-20 plan does not establish the quality goals that would require a determination of sufficiency under Ballot Measure 1.

Currently, there is no higher education model that, like the K-12 Quality Education Model (QEM), measures the cost of reaching post-secondary quality goals. The goals in ORS 350.009 are either results-oriented or too high-level to quantify the actions needed and related costs. The 40-40-20 goals are more concrete but are aspirational and results-oriented as noted above.

It is, therefore, the finding of this committee that the state’s system of post-secondary public education does not have sufficient quality goals established by law as to merit an analysis of whether funding is sufficient to meet those goals.

The Post-Secondary Quality Education Commission, established in 2007 by Governor Ted Kulongoski, recommended the development of a post-secondary quality education model to support decision-making on policy and state budget development, similar to the role of the K-12 Quality Education Model. The Post-Secondary Quality Education Commission recommended that such a post-secondary model be based primarily on the 40-40-20 strategy, determining the resources required to meet these goals and the barriers to address. This Post-Secondary Quality Education Commission saw the proposed model as a tool to give policy makers and the public the ability to analyze a

variety of policies and their impact on post-secondary costs. This Post-Secondary Quality Education Commission did recommend that funding for such a model be included in the state budget. Due to falling state revenues at the time, no funding was included in the final Legislatively Adopted Budget for that biennium.