Measure Description:
Directs Department of Education to conduct study to examine best methods for funding state's system of kindergarten through grade 12 public education.

Government Unit(s) Affected:
Department of Revenue (DOR), Oregon Judicial Department (OJD), Department of Education (ODE), Department of Justice (DOJ), School Districts, Education Service Districts (ESD)

Summary of Fiscal Impact:
Costs related to the measure may require budgetary action - See analysis.

Analysis: HB 3427 establishes a commercial activity tax (CAT) on Oregon businesses effective for the tax year beginning January 1, 2020 and establishes the Fund for Student Success separate and distinct from the General Fund. The CAT is estimated to generate $1.6 billion in 2019-21 biennium. For 2019-21, the proceeds will be distributed as follows, after the Department of Revenue’s cost of developing and implementing the new tax is deducted:
• Approximately $623.0 million to the State School Fund including approximately $423.0 million to backfill lost General Fund revenues resulting from the tax provisions of the bill and an additional $200 million to be distributed through the school revenue formula.
• $20.0 million to the High Cost Disabilities Account within the State School Fund.
• The remainder of the fund is divided between the Early Learning Account (20%), the Statewide Education Initiative Account (30%), and the Student Investment Account (50%).
For a more information on the revenue impact, refer to the Revenue Impact Statement issued by the Legislative Revenue Office.

Department of Education

Student Investment Account
Grants will be distributed to school districts and eligible charter schools to meet specific needs including meeting students’ mental or behavioral health needs and increasing student achievement including for specific groups of students that have historically experienced academic disparities. Grant funds must be used to, (1) increase instructional time, (2) address students’ health and safety needs, (3) reduce class sizes or staff caseloads, and (4) broaden curricular opportunities. Funding would generally be distributed based on the same formula as the State School Fund except the weight for poverty is doubled

Based on the above revenue projection, approximately $475 million would be distributed to the Student Investment Account.

Statewide Education Initiative Account
This Account is used to fund a variety of education related initiatives. For 2019-21 resources totaling over $260 million will be spent on programs and other costs including:
• A portion of the funding for the High School Graduation and College and Career Readiness Fund (Ballot Measure 98);
• Expansion of school nutrition programs;
• Re-engagement grants for educational and other services for drop-outs and those at risk of dropping out of school;
• Statewide school safety and prevention measures;
• Statewide equity initiatives and plans;
• Professional and workforce development for K-12 educators;
• Grants to Educational Service Districts (ESDs) to assist school districts in administering the Student Investment grants;
• Resources for the Statewide Longitudinal Data System;
• Summer learning grants for Title I schools;
• Funding to assist districts in developing systems to track student performance; and
• Staff and other costs to develop the initiatives listed above as well as the Student Investment grants.

Early Learning Account
This Account is used to fund the expansion of existing early learning programs or establishing new programs. For 2019-21, resources totaling over $170 million is anticipated to be spent from this fund for early learning related programs including:

• Early Intervention and Early Childhood Special Education programs;
• New Relief Nurseries sites and the expansion of existing programs;
• The Early Learning Equity Fund for the early learning needs of children and families of traditionally underserved populations;
• Oregon Pre-Kindergarten program;
• Early Head Start program;
• Preschool Promise program;
• Healthy Families Oregon;
• Parenting engagement programs;
• Professional and workforce development for early learning educators and other staff;
• Resources for capacity building, needs assessment and provider training; and
• Staff and other agency costs related to the programs listed above.

For the Early Learning programs, the Department of Education would need 11 positions (7.73 FTE) and just over $2.0 million total funds to process the agreements with additional providers, provide technical assistance, and establish and administer the new Equity Fund. The Student Investment grants require 33 positions (23.57 FTE) and just over $11 million total funds for functions including (1) administering the Student Success Teams and their interaction with districts, (2) providing technical assistance to school districts and eligible charter schools applying for grants (both state staff provided and contracted staff), (3) developing and maintaining the performance indicators and benchmarks for the individual districts, (4) managing and monitoring the individual district and charter school to determine if districts are meeting the terms and requirements of their grant agreements, and (5) establishing a Safe and Effective Schools unit to assist districts with school health and behavioral health technical assistance. Twenty-three positions (17.73 FTE) and approximately $6.4 million total funds are for the various initiatives funded by the Statewide Education Initiatives Account and agency support staff, contract technical assistance, and infrastructure. Approximately $5.5 million General Fund is required to fund these activities prior to April 1, 2020 when the new revenues begin to be available.

Oregon Department of Revenue
From July 1, 2019 to April 30, 2020, DOR would operate from a General Fund appropriation. DOR would need a one-time $4 million General Fund appropriation and the establishment of 24 permanent full-time positions (5.75 FTE) and 15 limited duration positions (3.50 FTE) to implement the CAT. This startup funding and position authority would provide sufficient resources for DOR to implement the measure through April 30, 2020. The
Legislature in 2020 may provide additional resources for the remainder of the biennium, which would be funded from gross corporate activities tax proceeds. The costs for May 2020 to June 30, 2021 are estimated to total $9.5 million Other Funds and an additional 29 positions (27.58 FTE) bringing the 2019-21 biennial total to $13.5 million and 68 positions (36.83 FTE).

To administer the CAT, DOR would require:

- Internal information technology staff for non-vendor supported return capturing and processing, system requirements, design, configuration, and development.
- Staffing and related costs for the general program administration, including assistance with GENTAX system configuration, assisting with website content, consulting on configuration of online system and integrated tax accounting taxpayer forms, letters, and website development, responding to appeals, coordination of program-related legislation, administrative rule development, and ongoing program administration.
- Communications staff to organize and coordinate media outreach activities, including taxpayer communication, television and radio commercials and forms editing
- Customer service, or tax services, to answer phone inquiries specific to the tax using a dedicated phone line.
- Processing of non-electronically filed returns and payments, including the depositing of funds and document imaging of filings.
- Account suspense staff to perform taxpayer account maintenance and work with businesses to reconcile discrepancies between submitted payments and taxes due.
- An Accountant to track receipts, tax adjustments, refunds, the administrative expenditures of the agency, and distribute the net revenue to the Fund for Student Success.
- A Human Resource support staff for additional staffing requirements of the agency.
- Service and supplies, which is largely comprised of mailing costs, and capital outlay expenses for office furniture.
- Audit staff beginning in the spring of 2021.
- Filling enforcement staff and collection staff beginning with the 2021-23 biennium.

In the 2021-23 biennium, DOR estimates expenditures of approximately $15.5 million Other Funds, including $12 million in personal services and $3.5 million in services and supplies. DOR would need 72 positions (61.79 FTE).

**Oregon Judicial Department**

The bill may result in an increase in the number of appeals filed with the Tax Court and additional resources may be needed. The Oregon Judicial Department may need to return to a future Legislative Assembly and request additional resources if the number of appeals due to the provisions of this bill warrant it.

**Department of Justice**

The Department of Justice may require Other Funds expenditure limitation and the establishment one permanent full-time positions (0.88 FTE) and two limited duration positions (0.88 FTE) to support the Department of Revenue’s anticipated need for legal services. These costs are estimated to total $464,086 Other Funds in the 2019-21 biennium and $527,428 Other Funds in the 2021-23 biennium; however, DOJ will bill the Department of Revenue for actual legal services provided under the standard legal services hourly billing model, which will also include an administrative overhead charge.

The substantive budget changes are contained in HB 5047 that will be worked in the Joint Committee on Ways and Means.