

*Prepared by  
Legislative Policy and  
Research Office*

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

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

December 2021

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Sen. Chuck Thomsen, Senate District 26  
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December 6, 2021


To Speaker Kotek and President Courtney:

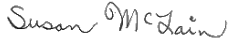
Submitted herewith is the final report of the Joint Interim Special Committee on Public Education Appropriation. This committee was created for the purpose of fulfilling the Legislative Assembly's constitutional obligations under Article VIII, Section 8.

After hearing public testimony, the Committee makes the following recommendations:

- Review the statutes relating to the Quality Education Model and Quality Education Commission in conjunction with the Executive Branch. The Quality Education Commission should review grants-in-aid as well as SSA funded programs and determine which of them should be included in the calculation in the future.
- Consider the addition of early learning to this committee's statutory directive.
- Review how the corporate kicker is factored into determining overall K-12 funding.
- Review the process used to determine the statewide current service level.
- Consider quality measures for both higher education and early learning in order to allow for a sufficiency determination in the future.
- Consider alternatives in providing increased financial stability to Oregon's school districts.

Sincerely,

  
\_\_\_\_\_  
Sen. Lew Frederick, Senate District 22; Co-Chair

  
\_\_\_\_\_  
Rep. Susan McLain, House District 29; Co-Chair

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## EXECUTIVE SUMMARY

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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 appropriate sufficient funds for the state's public education system and issue periodic reports to demonstrate the sufficiency or insufficiency of the appropriation. 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 2021-2023 biennium, full funding of the Quality Education Model would require a State School Fund allocation of \$9.86 billion. During the 2021 Legislative Session, the Legislative Assembly provided \$9.3 billion for the State School Fund.

The 2021-2023 Legislatively Adopted Budget represents a significant narrowing of the insufficiency reported in past years, from 23.9 percent in the 1999-2000 biennium to 6.0 percent, or \$557.4 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 increasing student needs, salaries, Public Employees Retirement System contributions, and health care benefits.

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 would reach over 90 percent by the 2024-2025 school year. Without full funding, the predicted graduation rate averaged for all students is forecast to be about 86 percent by the 2024-2025 school year, a difference of over four percent.

This report summarizes Oregon's education quality goals, describes the state's K-12 funding for the current biennium, discusses the impact of the Student Success Act, identifies key factors that contribute to insufficient funding, and shows the effects of the funding insufficiency on the state's graduation rate.

## REQUIREMENTS OF BALLOT MEASURE 1 AND COMMITTEE CHARGE

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This report addresses the requirements in Ballot Measure 1 (November 2000) and [ORS 171.857 \(2019\)](#). 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 a report that demonstrates the sufficiency or insufficiency of funds.

[ORS 171.857](#) (2019) 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, 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 to 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.<sup>1</sup>*

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 \(2019\)](#) 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 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, 18 school districts and seven public school students sought a declaratory judgment requiring that the Legislative Assembly fund the Oregon public K-12 school

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<sup>1</sup> Or. Const. art. VIII sect. 8(1).

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.<sup>2</sup> 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.”<sup>3</sup>

The Joint Interim Special Committee on Public Education Appropriation scheduled four meetings during the 2021-2022 interim.

On October 6, 2021, 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 in early childhood, K-12, and higher education.

On November 1, 2021, the committee met to hear an informational presentation on early intervention and early childhood special education.

On November 30, 2021 the committee met to review the draft report, discuss changes, and take public testimony. The committee recommended changes based on their review and input from stakeholders. Public testimony included:

- Requests to include early learning in the committee’s statutory authority and enact quality goals so that a sufficiency determination can be made.
- Requests to review the process for determining current service level, including the use of districts’ data regarding their actual service level.
- Requests to review whether the Student Success Act funding has been used to supplant allocations to the State School Fund.
- Requests to consider the increasing needs of Oregon’s student population, especially students enrolled in special education.
- Requests to provide more financial stability for school districts, especially in light of enrollment fluctuations.

On December 6, 2021, the committee met to review the changes and adopt the report.

## **OREGON’S EDUCATION QUALITY GOALS**

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Quality goals for kindergarten through grade 12 (K-12) public education were established by the Legislative Assembly in 2001 and are codified in [ORS 327.506 \(2019\)](#). These goals are:

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<sup>2</sup> [Pendleton School Dist. v. State of Oregon, 220 Or. App. 56, 185 P.3d 471 \(2008\)](#).

<sup>3</sup> [State of Oregon, 345 Or. App. 596, 200 P.3d 133 \(2009\)](#).



- 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.<sup>4</sup>

## QUALITY EDUCATION COMMISSION

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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 \(2019\)](#), 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 1 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, 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

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<sup>4</sup> [ORS 329.015 \(2019\)](#)

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.<sup>5</sup> 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. The Oregon Department of Education (ODE) staffs the QEC, and the QEM reports can be found on [ODE's website](#).

## Recommendations

The 2020 QEM report contained 11 recommendations for improving student outcomes in addition to fully funding the QEM.<sup>6</sup>

1. Oregon should make educational equity and eliminating gaps in opportunity and achievement its primary education goals. The QEC found that inadequate educational opportunities for students of color, English learners, students with disabilities, and students from low-income families will disadvantage them throughout their lives.
2. Oregon should focus its educational improvement efforts on system and process improvement. The QEC found that relying on discrete programs, activities, and interventions will treat only the symptoms – not the root causes – of the education system's inadequacies.
3. Short-term recommendations:
  - a. Continue implementing the Student Success Act: The QEC recommends that Oregon continue implementing the aspects of the Student Success Act that build capacity for system reform.
  - b. Develop plans to assist students who were the most adversely affected by school closures: The QEC found that the coronavirus pandemic exacerbated inequities in student opportunities.
4. Long-term recommendations:
  - a. Institutionalize equity-based practices within schools: The QEC recommends schools create more welcoming environments and take actions to reduce disparities in student outcomes.
  - b. Increase equal opportunity and access to high-quality early learning programs: The QEC recommends increased access to developmentally appropriate, culturally specific, and inclusive early learning programs.
  - c. Pay attention to social and emotional learning: The QEC found that children need to develop social and emotional skills to be effective learners.
  - d. Build community partnerships: The QEC recommends that schools and districts turn to community-based nonprofits and social service agencies to deliver key services when the school or district is unable.

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<sup>5</sup> Quality Education Commission, *Quality Education Model*, 61-63 (2016).

<sup>6</sup> Quality Education Commission, *Quality Education Model Final Report*, 11 (2018).

- e. Build systems designed to continuously improve: The QEC recommends that district leaders acknowledge, measure, and evaluate how student needs differ across schools, and that the focus for change must be on school-level processes, tailored to the specific needs of each school.
- f. Distribute resources to individual schools based on measures of student need: The QEC recommends that districts account for variations in need among their schools when distributing resources to their schools.
- g. Work cooperatively with partners to implement the Student Success Act: The QEC recommends strengthening partnerships to implement the Student Success Act.

## REQUIRED FUNDING AND STRATEGIES

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According to the 2020 QEC report, the QEM requires an estimated State School Fund allocation for the 2021-2023 biennium of \$9.86 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 nearly \$19 billion. Estimated non-State School Fund revenues were then subtracted, including property taxes, Public Employees Retirement System side account earnings, food service receipts, federal grants, local option levies, selected Student Success Act resources, and other resources available to school districts.

The resulting amount is the required State School Fund contribution to reach the \$19 billion the QEM needs for full implementation. The amount determined for the State School Fund was based on financial information available at the time the 2020 QEM report was published and does factor in an estimate for the additional revenues allocated to the K-12 system via the Student Success Act. 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 2020 report included the following two alternatives:<sup>7</sup>

1. The first alternative recommended by the QEC is to evaluate potential K-12 savings areas and spending trends, including an analysis of classroom spending compared to other spending. The QEC recommends the analysis be shared publicly.
2. The second alternative is to provide tools and templates to help districts regularly benchmark spending against peers, and provide guidance on best-practice options for directing more money to classrooms.

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<sup>7</sup> Quality Education Commission, *Quality Education Model Final Report 54* (2020)

## 2021-2023 K-12 FUNDING

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). The SSF is resourced by a combination of General Fund, Lottery Funds, statutorily required transfers from the Fund for Student Success (corporate activity tax), and marijuana-related revenues. GIA spending is resourced by a variety of revenue sources including a large amount of federal funding, which is distributed to districts and other entities. Many of these GIA payments are used in the determination of the total need as calculated by the QEM. These Grant-in-Aid programs are summarized 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 (2021-2023) and the amount for the previous biennium (2019-2021). 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 2021 Legislative Session. During the 2021-2023 biennium, these local revenue estimates will be updated as more up-to-date information is made available.

**Figure 1: School Formula Revenue 2019-2021 and 2021-2023**

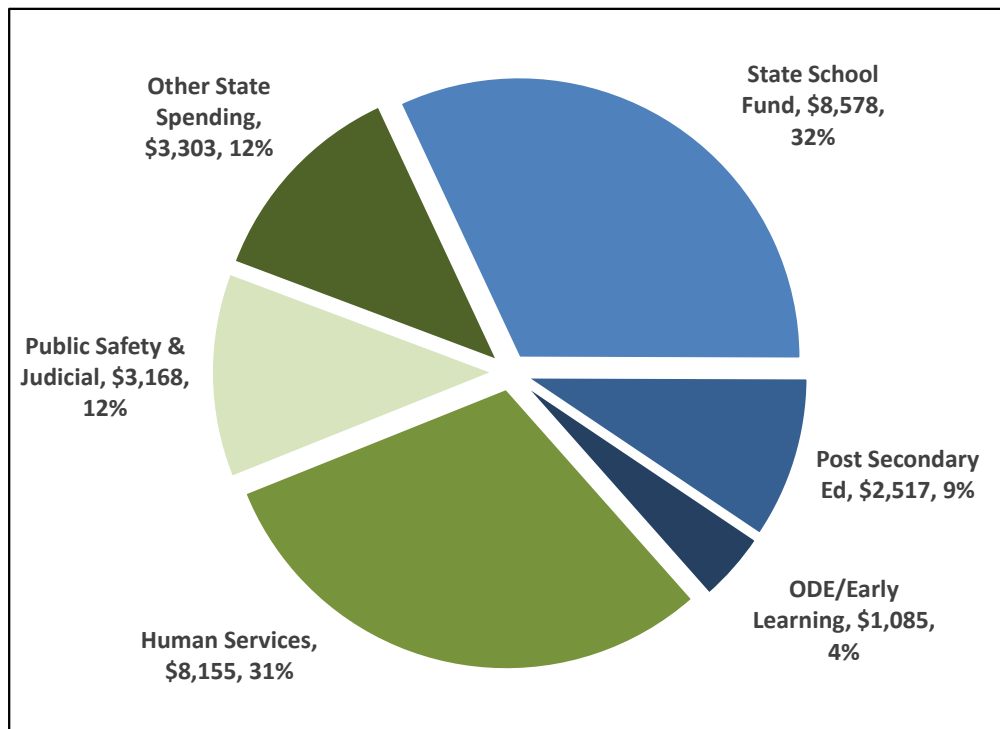
|  | <i>Millions of Dollars</i> |                                |
|--|----------------------------|--------------------------------|
|  | 2019-21 Leg.<br>Approved   | 2021-23 Leg.<br>Adopted Budget |
| State School Fund Resources            |                            |                                |
| General Fund                           | 7,568.5                    | 7,988.2                        |
| Lottery Funds                          | 730.5                      | 589.5                          |
| Student Success Funds                  | 592.9                      | 685.7                          |
| Marijuana Revenues & Other Resources   | <u>108.1</u>               | <u>36.6</u>                    |
| Total State School Fund Resources      | 9,000.0                    | 9,300.0                        |
| Local Revenues (estimated)             |                            |                                |
| Property Tax                           | 4,089.8                    | 4,401.6                        |
| Common School Fund                     | 111.4                      | 134.0                          |
| Other Local Revenue                    | <u>73.2</u>                | <u>59.5</u>                    |
| Total Local Revenue                    | 4,274.4                    | 4,595.1                        |
| Total School Revenue Formula Resources | 13,274.4                   | 13,895.1                       |

Source: Legislative Fiscal Office and Legislative Revenue Office

Overall, the SSF represents \$8.6 billion or 32 percent of the total \$26.8 billion in combined General Funds and Lottery Funds for the 2021-2023 biennium. Another \$36.6 million of marijuana-related and other revenues and a transfer of \$685.7 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 \$9.3 billion. Total education expenditures, including all K-12 spending as well as post-secondary and early learning, total \$12.2 billion, accounting for 45.4 percent of total state General Fund and Lottery Fund resources for 2021-2023. This percentage, as well as the amount in Figure 2, does not include the \$722.3 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 2021-2023 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: 2021-2023 Legislatively Adopted Budget, Total Budget from General and Lottery Funds (in millions of dollars)**

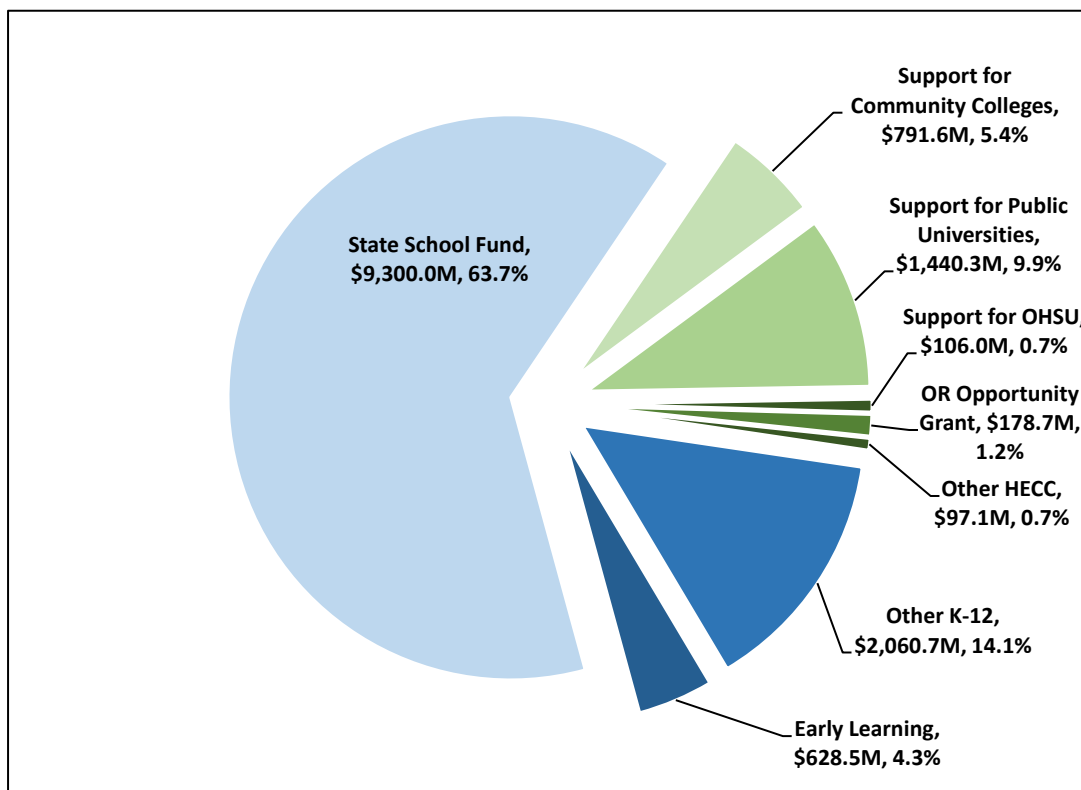


Source: Legislative Fiscal Office

The SSF represents 63.7 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 introduction of the new Fund for Student Success resources in 2019-2021 for only one year of the biennium.

The amount transferred from the Fund for Student Success is in two parts: (1) the backfill of resources 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 reductions included in the 2019 Student Success Act, and (2) an increase in the amount dedicated for the High Cost Disability Account of the SSF.

**Figure 3: 2021-2023 Legislatively Adopted Budget: Education Program Area From General and Lottery Funds, Student Success and Marijuana Revenues**  
**\$14,603 Millions of Dollars**

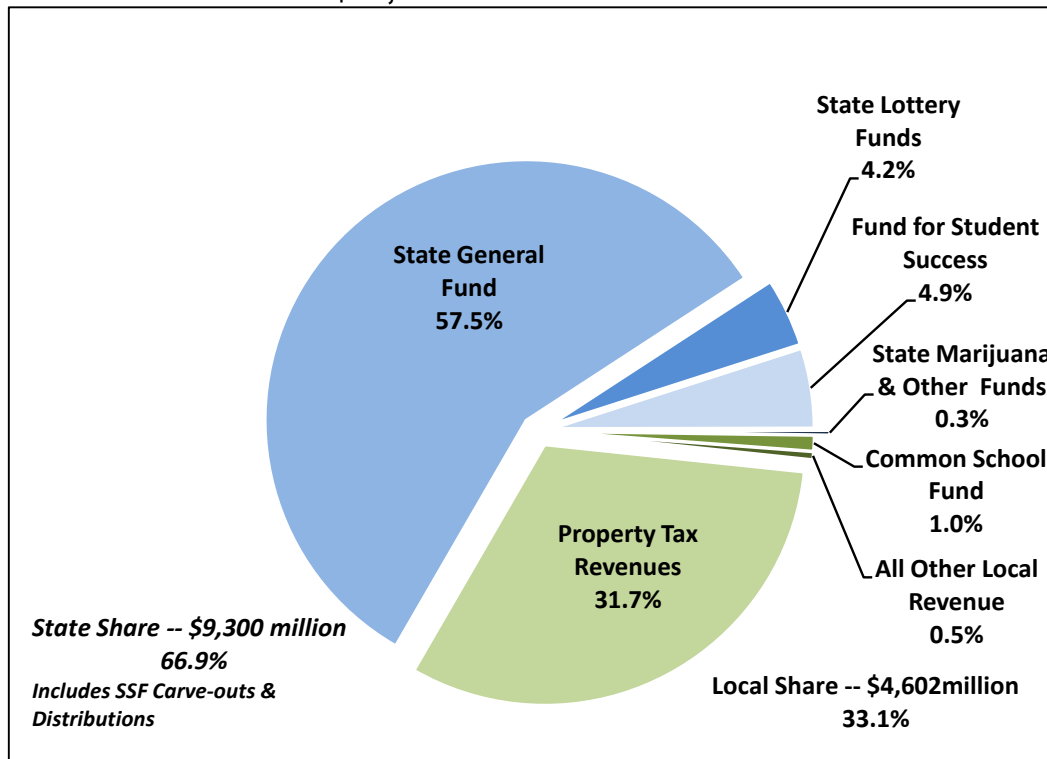


Source: Legislative Fiscal Office

Overall, general purpose funding for school districts and education service districts (ESDs) 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 2021-2023 which totals \$13.9 billion. Overall, the state resources that make up the SSF represent just over two-thirds of the total education program area revenues for 2021-2023 (66.9 percent), a decrease from the 67.8 percent for 2019-2021.

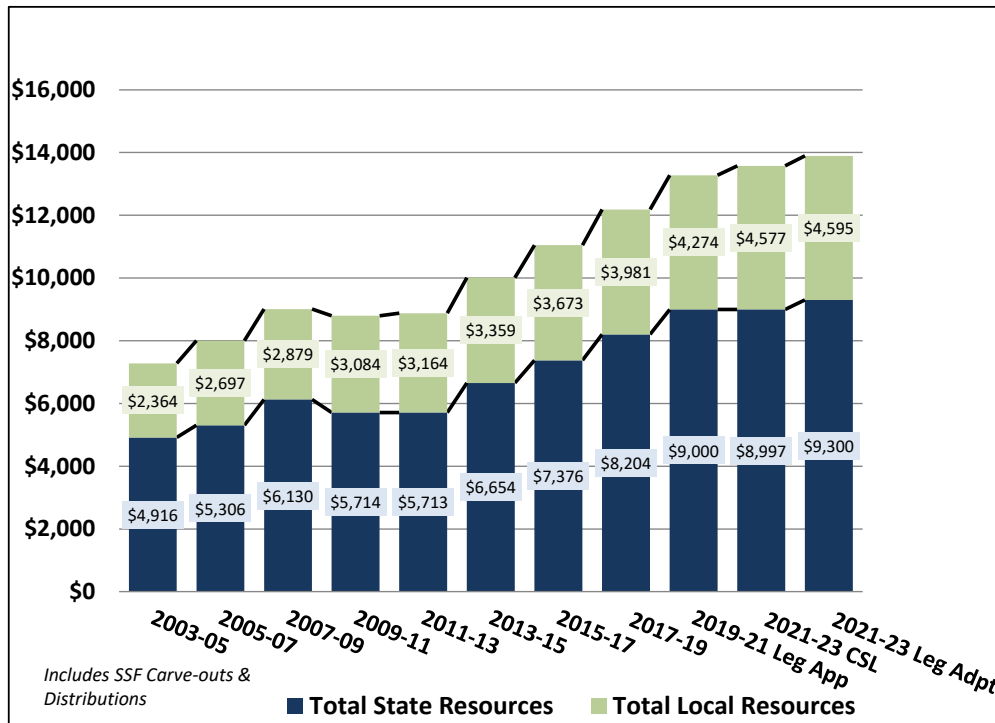
**Figure 4: 2021-2023 Legislatively Adopted Budget: K-12 School Formula Resources  
\$13,274 Millions of Dollars**



Source: Legislative Fiscal Office

Figure 5 demonstrates the growth of school formula revenues over several biennia. Between 2011-2013 (the first biennium coming out of the recession) and 2019-2021, total resources grew by 49.5 percent (average of over 12 percent each biennia) with an additional 4.7 percent growth for 2021-2023. Total state resources grew by 62.8 percent between 2011-2013 and 2021-2023 while local resources grew by 45.2 percent over the same period.

**Figure 5: School Formula Resources 2003-2005 to 2021-2023**  
**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  
2021-2023 Legislatively Adopted Budget (Millions of Dollars)**

| <b>Projected Expenditures</b>  |                            |
|--|----------------------------|
| <b>Statewide Uses (0.75%)</b>  | <b>Millions of Dollars</b> |
| Oregon School for the Deaf and Long-Term Care                              | 26.00                      |
| Pediatric Nursing Program  | 5.20                       |
| Talented and Gifted  | 0.35                       |
| Speech Pathologist   | 0.15                       |
| Virtual School District  | 1.60                       |
| English Language Learners  | 12.50                      |
| School Nutrition   | 2.85                       |
| 10th Grade Assessment  | 1.10                       |
| Office of Educational Facilities (includes Healthy & Safe Schools program) | 8.00                       |
| Educator Advancement Council   | 41.26                      |
| Feminine Hygiene   | 5.60                       |
| <b>Distributed to School Districts and ESDs (99.25%)</b>                   |                            |
| General Purpose & Transportation Grants to School Districts                | 12,993.40                  |
| General Purpose Grants to Education Service Districts (ESDs)               | 630.60                     |
| High-Cost Disability Grants  | 110.00                     |
| Facilities Grants  | 7.00                       |
| Local Option Equalization Grants   | 4.00                       |
| Small School Supplement  | 5.00                       |
| Reserve Account  | 40.00                      |

*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 in recent biennia beginning in the second year of the 2019-2021 biennium with the resources from the new Fund for Student Success totaling over \$1.3 billion for the 2021-2023 biennium. The largest amount (almost \$900 million) is distributed to school districts as Student Investment grants;
- additional resources for the operation of the Oregon School for the Deaf beyond the amount carved out of the SSF;

- funding for youth development efforts. These resources may be used outside of the K-12 area, but a large share is directed to K-12 related programs;
- 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.

In addition, for 2021-2023 there is over \$1.2 billion in federal funding estimated as the amount reimbursed to school districts in federal COVID-related spending passed over the past 18 months in three pandemic-related federal bills. While much of this funding is for direct pandemic-related costs (e.g., health and safety-related costs, ventilation-related upgrades), the eligible uses of these funds allow for a wider use.

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 that are included in the overall ODE budget.

**Figure 7: Other K-12 Related Spending\***  
**For 2021-2023 Legislatively Adopted Budget (Millions of Dollars)**

|   | <b>General<br/>and Lottery<br/>Funds</b> | <b>Fund for<br/>Student<br/>Success</b> | <b>Total<br/>Funds</b> |
|---|--|---|------------------------|
| Departmental Operations                           | 89.4                                     | 36.0                                    | 259.0                  |
| Educator Advancement Programs                     | -  |   | 50.4                   |
| Oregon School for the Deaf                        | 14.3                                     |   | 21.2                   |
| Debt Service and Bonding                          | 47.0                                     |   | 345.0                  |
| K-12 Grant-in-Aid Programs                        |  |   |                        |
| Student Success Grant Programs                    | 186.1                                    | 1,054.0                                 | 1,420.1                |
| District Capacity & Technical Assistance          |  | 49.9                                    | 54.0                   |
| STEM & CTE Related Grants                         | 32.3                                     |   | 67.0                   |
| Nutritional Programs                              | 11.8                                     | 53.3                                    | 503.7                  |
| Educator Effectiveness & Professional Development |  | 30.7                                    | 70.0                   |
| Closing the Achievement Gap                       | 8.2                                      | 32.9                                    | 480.0                  |
| Specialized Student Service Grant Programs        | 282.2                                    | 83.8                                    | 761.5                  |
| COVID Related Assistance                          |  |   | 1,231.3                |
| Youth Development Programs                        | 14.7                                     | 8.3                                     | 30.6                   |

Source: Legislative Fiscal Office

\*The General Fund appropriation for Ballot Measure 98 grants and some other programs are double counted (both General Fund and Other Fund limitation) 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.

## STUDENT SUCCESS ACT

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[House Bill 3427 \(2019\)](#) created a modified corporate activity tax (MCAT), with revenue from the tax dedicated solely to early learning and the K-12 system. The net revenue generated by the MCAT is allocated directly to the Fund for Student Success for distribution to school districts, to early learning, and to certain statewide education initiatives. 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. According to the Office of Economic Analysis, the state will have collected \$1.4 billion by the end of the 2019-2021 biennium and is projected to collect \$2.4 billion for the 2021-2023 biennium.<sup>8</sup>

[ORS 327.001](#) (2019) first requires that funds within the Fund for Student Success be transferred to the State School Fund. Since the Student Success Act also included reductions in income tax rates and other actions reducing overall General Fund revenue for the state, the amount transferred to the State School Fund is the estimated amount of this reduction for the biennium.

The same ORS section also allows for a working fund balance for cashflow and future potential shortfalls in the revenue stream. The remaining amount is then to be distributed with at least 50 percent of the revenue going to school districts in the form of non-competitive Student Investment Grants, at least 20 percent to early learning-related programs, 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 through the Fund for Student Success.

Provisions of the Student Success Act are responsive to the four recommendations made by the Quality Education Commission.

## SUFFICIENCY DETERMINATION

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It is the determination of the Joint Interim Special Committee on Public Education Appropriation that the amount of money appropriated for the 2021-2023 biennium for K-12 public education is insufficient to meet the recommended funding levels of the Quality Education Commission (QEC) but has improved considerably over the past few biennia.

The Quality Education Model (QEM) estimated that a State School Fund (SSF) appropriation of \$9.86 billion for K-12 would be required to reach the state's educational goals for 2021-2023.<sup>9</sup> This amount is based on the QEM's total cost for the fully implemented model of \$18.99 billion offset by other revenues. These other revenues include property tax and other local revenues, other state resources like selected Student Success Act-related funding, and various federal program funds (e.g., Special Education, nutrition) available to the K-12 system. The 2021-2023 Legislatively Adopted Budget for the SSF is \$9.3 billion total funds, resulting in a gap of \$557.4 million. In other words, the

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<sup>8</sup> Office of Economic Analysis, Department of Administrative Services, [Oregon Economic and Revenue Forecast, September 2021 \(Vol XLI, No. 3\)](#), p. 55. (August 25, 2021).

<sup>9</sup> Quality Education Commission, *Quality Education Model* 9, (2020).

SSF appropriation would have to be \$9.86 million to reach the cost of QEM's fully implemented model. This is a different amount than what was presented to the committee by ODE at the first 2021 meeting, since the agency did not factor any Student Success Act funding into that number.

The gap has decreased significantly over the past biennia primarily driven by the funding resulting from the Student Success Act (SSA) passed in 2019 and the High School Success program (Ballot Measure 98). Only the SSA funding that is passed through to districts is included in this calculation, most notably the Student Investment Grants that total over \$892 million for 2021-2023. While programs like the Student Investment Grants and the High School Success grants do have specific criteria for what the funding can be spent on, they generally are broad enough to address issues and spending included in the Quality Education Model overall need calculation (\$18.99 billion for 2021-2023). These programs were factored in the calculation in the 2020 Quality Education Commission report as well as the 2019 report of this committee. There is other Grant-in-Aid spending for a variety of programs and educational needs not included in this QEM calculation.

Also not included in this calculation is any of the Elementary and Secondary School Emergency Relief (ESSER) federal pandemic-related funding which is estimated at \$1.2 billion for districts in the 2021-2023 budget. While this funding can be used for a wide variety of spending categories included in the overall QEM calculation, it is assumed to be one-time in nature and won't be available in future biennia.

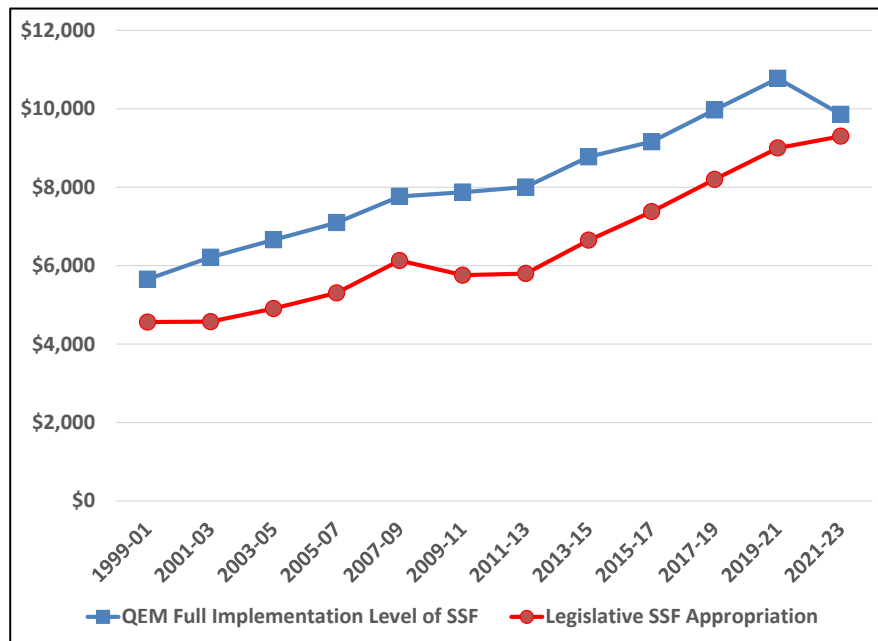
Another major spending initiative for 2019-2021 and 2021-2023 was the \$250 million summer learning and enrichment program approved early in the 2021 Legislative Session. This grant program provided:

- credit recovery programs for high school students;
- enrichment, academic learning, social and emotional supports, and mental health services for K-8 students;
- wrap-around child care for K-5 students;
- preschool summer assistance; and
- grants to community-based organizations to encourage and provide student engagement activities.

This funding for this summer learning initiative is not included in this calculation since it is one-time, but it is an important component for getting students back on track after the pandemic.

Figure 8 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 6.0 percent, or \$557.4 million for 2021-2023. As noted above, the primary reason for the narrowing gap for 2021-2023 is the full implementation of the Student Success Act spending.

**Figure 8: Oregon School Funding Gap  
Millions of Dollars**



Source: Oregon Department of Education

## 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.

### 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 \$1.95 billion

or 8.3 percent of total estimated General Fund revenues by the end of the 2021-2023 biennium based on the September 2021 revenue forecast. The Education Stability Fund was accessed (\$400 million) during the August 2020 special session. 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 2021-2023, the September 2021 revenue forecast predicts that a personal income tax kicker of \$1.9 billion will be credited primarily during the tax filing season in April 2022. This kicker payment will reduce the available revenues for 2021-2023, 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 12 percent of the General Fund and Lottery Funds budget for 2021-2023; 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 mandatory minimum sentences for many felony charges.

The other major budget area is Health and Human Services which represents 31 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. For the 2021-2023 biennium, outside factors such as the wildfires in 2020 and the pandemic have generated need for significant investments including housing assistance. 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 and early learning programs compete for General Fund resources.

## **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) costs associated with increasing student needs, and (2) increasing input prices including rising employee compensation.

***Increasing Costs Due to Increasing Student Needs.*** Over time, student demographics and other characteristics - including income levels, homelessness, special education needs, the number of English language learners, and behavioral needs - have had an impact on the cost of educational services. These are harder to quantify given the limited amount 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 education, English language learners, students in poverty, and foster care children.

The number of students in poverty and low-income students has increased over the past decade-and-a-half as measured by the number of students qualifying for free and reduced-price lunches as reported by the Oregon Department of Education (ODE). 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.

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. While the growth in the number of special education students is low from one year to another, information from educators suggests that some of these students are more challenging than in the past, requiring more staff time and more services. The number of students with other behavioral issues is also growing. It is not clear if the current QEM model is factoring these increased student needs into the overall costs. There is a need to review the current model and to make sure these needs are sufficiently addressed in the overall QEM cost.

Other significant cost drivers for districts include the costs of mitigating the effects of COVID-19, and enrollment fluctuations due to natural disasters such as wildfires and the worldwide pandemic. Additionally, widespread labor shortages have required districts to increase pay for certain types of staff, such as bus drivers, in order to maintain services for students.

***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, factors in average compensation increases across the state. Average teacher salary has grown at an average annual rate of about two 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.

**Public Employees Retirement System (PERS).** To keep pace with retirement benefits due teachers and other employees, school districts and education service districts (ESDs) must pay a greater share of their budgets for these costs. Since the amount of benefit paid is based on employee compensation, payroll growth is also a factor in increasing PERS costs. The 2019 Legislative Assembly did make some changes to PERS to limit employer rates in [Senate Bill 1049](#), but PERS still accounts for a significant share of school district costs. There are two types of PERS rates for districts: (1) the gross rate which represents the total costs that must be paid by school districts before offset, and (2) the net rate which factors in the effect of side accounts and pre-paid employer contributions (which are primarily funded with Pension Obligation Bonds which many school districts issued in past years to offset PERS 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, Tier 2, Oregon Public Service Retirement Plan or OPSRP) and other factors. The statewide weighted rates have been increasing in past biennia from an average gross rate of 20.00 percent of payroll (net rate 9.38 percent) in the 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. However, due to the changes in SB 1049 (2019), the rates assumed in 2021-2023 fell to 24.19 percent (net rate of 13.79 percent). 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, was over \$12,000 for the 2019-2020 school year, and was reduced to just under an estimated \$10,000 for the 2022-2023 school year. Early information on rates affecting the 2023-2025 biennium show increases over the rates for 2021-2023. It must be noted that year-to-year comparisons can change significantly based on actual investment earnings, PERS Board changes and assumptions, legislative changes (e.g., rate collaring), and court decisions.

**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.

**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. The pandemic has increased costs in many areas of school budgets. While federal funding has been made available for many of these costs there are likely long-term costs associated with the pandemic. For example, teacher shortages (including substitute teachers) and other school staff are currently putting upward pressure on costs. Changing federal requirements in areas like special education, low-performing schools, and assessments have led to increasing educational costs over a multi-year period.

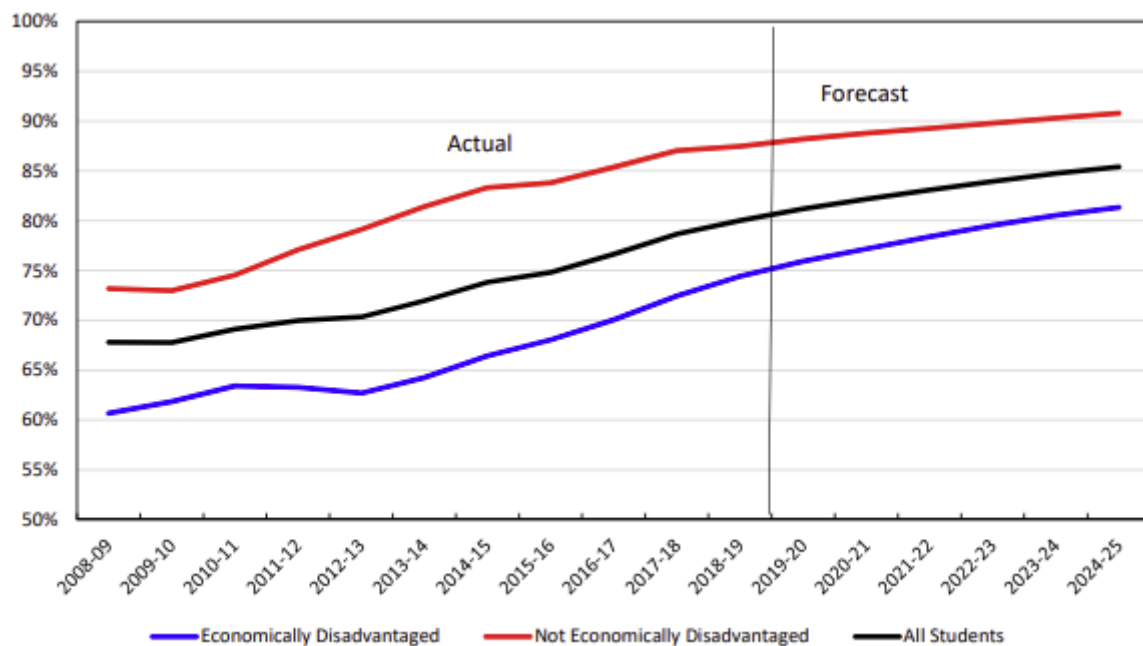


## IMPACT OF INSUFFICIENCY

The 2020 Quality Education Model (QEM) report predicts that graduation rates would rise faster and to higher levels with increased funding. The report states that the studies reviewed by the Commission indicate that increased funding can lead to increased graduation rates, particularly for economically disadvantaged students, and that increased funding has a greater impact than reductions in class sizes.

Figure 9 shows the actual and predicted graduation rates if funding remains at its current level.

**Figure 9: Actual and Predicted Graduation Rates at Current Funding**

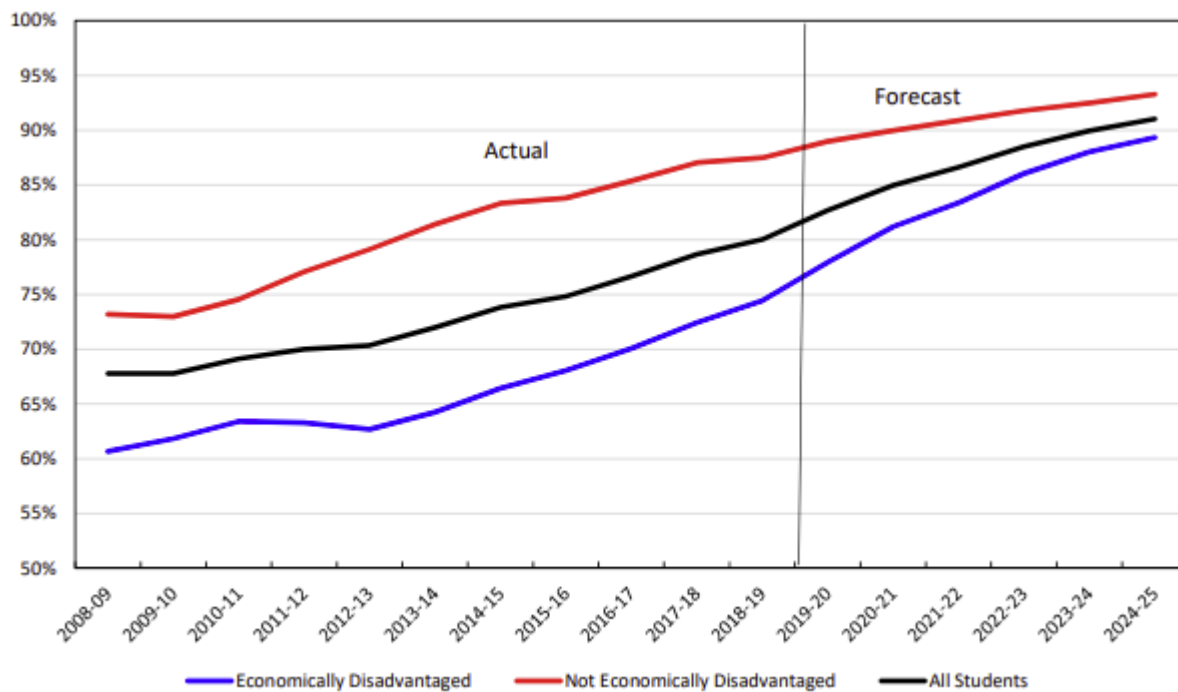


Source: Oregon Department of Education

The \$9.3 billion appropriated to the State School Fund in the 2021-2023 Legislatively Adopted Budget is approximately \$300 million over current service level (CSL), which for 2021-2023 would have been just under \$9 billion.

Figure 10 shows the actual and predicted graduation rates if the QEM were fully funded.

**Figure 10: 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 would reach over 90 percent by the 2024-2025 school year. Without full funding, the predicted graduation rate for all students is forecast to be over 86 percent by the 2024-2025 school year, a difference of approximately four percent.

## EARLY LEARNING SYSTEM GOALS

Although [ORS 171.857 \(2019\)](#) does not require this committee to include Oregon's early learning system in its report, several parts of the system are publicly funded and are therefore included here.

[ORS 329.160 \(2019\)](#) does not set out any specific quality goals for the state's early learning system as a whole. However, specific programs' definitions and enabling statutes do list expectations for the programs. [ORS 329.170 \(2019\)](#) states that the Oregon prekindergarten program "provides comprehensive health, education and social services to children prenatally through five years of age...." Similarly, [ORS 329.172 \(5\) \(2019\)](#) establishes quality standards for the state's Preschool Promise program. [ORS 343.465 \(2019\)](#) establishes some quality standards for services to preschool children experiencing disability.

The goals laid out in statute for Oregon's early learning programs are not sufficiently measurable for this committee to be able to make a determination about the adequacy of funding. Additionally, there is no early learning model that, like the K-12 Quality Education Model, measures the cost of reaching early education quality goals. It is, therefore, the

finding of this committee that the state’s system of early childhood 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.

## **POST-SECONDARY QUALITY EDUCATION GOALS**

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[ORS 171.857 \(2019\)](#) 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 \(2019\)](#) 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, commonly called 40-40-20:

- 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.
- The remaining 20 percent will earn a high school diploma, extended or modified diploma, or the equivalent.

[House Bill 2311 \(2017\)](#) amended the 40-40-20 goals to apply to adult Oregonians who have moved through Oregon’s K-12 and higher education systems. Sponsors of the legislation and Legislative Counsel agreed that, due to its aspirational nature, the 40-40-20 plan does not establish the quality goals that would require a determination of sufficiency under Ballot Measure 1.

In 2007, Governor Ted Kulongoski established the Post-Secondary Quality Education Commission, which 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. This Commission saw the proposed model as a tool to give policymakers and the public the ability to analyze a variety of policies and their impact on post-secondary costs.

The Commission recommended that the proposed model:

- be based primarily on the 40-40-20 strategy;
- determine the resources required to meet these goals and identify the barriers to success; and
- 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, and it has not been addressed since.

Currently, there is no higher education model that, like the K-12 Quality Education Model (QEM), measures the cost of attaining post-secondary quality goals. The aspirational goals in [ORS 350.009 \(2019\)](#) are not quantifiable for measuring costs, while the 40-40-20 goals are more concrete but are results-oriented rather than prescriptive.

Therefore, this committee finds 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.









# Report on Adequacy of Public Education Funding - FINAL

Final Audit Report

2021-12-09

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