

REPORT ON THE ADEQUACY OF PUBLIC EDUCATION APPROPRIATIONS

Joint Public Education
Appropriations Committee

December 2023

About this Report

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.



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November 20, 2023

To Speaker Rayfield and President Wagner:

Submitted herewith is the final report of the Joint 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.

Sincerely,

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

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



Report on the Adequacy of Public Education Appropriations

DATE: Month XX, XXXX

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 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 that was appropriated 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.

Based on the 2022 Quality Education Model report, net funding of the Quality Education Model (QEM) would require state resources totaling \$13.2 billion in the 2023-25 biennium. During the 2023 Legislative Session, the Legislative Assembly provided \$11.7 billion in State School Fund and Fund for Student Success resources.

After a significant narrowing of the insufficiency "gap" to \$557.4 million in the 2021-23 biennium, the 2022 QEM report projected that the gap would have grown in the 2023-25 biennium to \$2.517 billion, or 19% short of funding QEM recommendations. Legislatively adopted funding of \$11.7 billion for the 2023-25 biennium narrows that gap to \$1.5 billion, or 11.5%, but the fact that a sizeable shortfall remains is primarily attributable to changes made to the Quality Education Model that have increased its cost.

The Commission notes that the Quality Education Model is twenty years old and due for updates to incorporate changes that have occurred in educational service delivery and best practices over time. The Commission's 2022 QEM report is considerably shorter than previous reports, both intended by the Commission to improve readability and to appeal to a wider audience and from omitting much of the data that prior reports included and that the Legislature relies upon when evaluating the sufficiency of funding for K-12 education. The Commission's report does not contain the level of detail necessary to determine the impact of funding insufficiency on the state's ability to meet



quality goals, nor does it contain the data necessary to determine the specific effects of the insufficiency.

While not included in its initial report, a subsequent letter from the Quality Education Commission to the Joint Committee on Public Education Appropriation (JPEA) asserts 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 four-year graduation rate averaged for all students would reach 90 percent by the 2027-28 school year. Continued investment would maintain this 90% average graduation rate through the 2030-31 school year. Although historical data shows an increasing trend, graduation rates are not likely to increase as rapidly at funding levels that are lower than the amount recommended by the QEM.

This report summarizes Oregon's education quality goals, describes the state's K-12 funding for the current biennium, identifies certain factors that may contribute to insufficient funding, discusses factors that cannot be determined from the Quality Education Commission report, and notes the Commission's assertion about the effect funding insufficiency may have on the state's graduation rate.



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Requirements of Ballot Measure 1 and Committee Charge

This report addresses the requirements in Ballot Measure 1 (November 2000) and [ORS 171.857 \(2021\)](#). 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.

Legal Background

[ORS 171.857 \(2021\)](#) 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.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...

¹ Or. Const. art. VIII sect. 8(1).



Regarding post-secondary public education, [ORS 171.857 \(2021\)](#) 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 2006, 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.² The trial court granted summary judgment against the plaintiffs, and the Court of Appeals affirmed in 2008. However, the Oregon Supreme Court, in a 2009 decision that partially reversed the earlier courts' decisions, ruled 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

Committee Meetings

The Joint Committee on Public Education Appropriation convened three times during the 2023-2024 interim.

On September 8, 2023, the committee met to hear an overview of Ballot Measure 1 from Legislative Counsel as well as presentations from the Legislative Fiscal Office (LFO), Office of the Governor, Higher Education Coordinating Commission (HECC), Department of Early Learning and Care (DELIC), and Quality Education Commission (QEC). The information presented to the committee included the sufficiency level for the Quality Education Model (QEM), the legislatively adopted budget for the 2023-2025 biennium, and funding levels for public education in K-12, higher education, and early learning programs.

On November 9, 2023, the committee met to review a draft of this report as presented by staff. The committee also discussed several topics related to education funding. These topics included:

- the calculation of current service level (CSL);

² [Pendleton School Dist. v. State of Oregon, 220 Or. App. 56 \(2008\)](#).

³ [Pendleton School Dist. v. State of Oregon, 345 Or. 596, 599 \(2009\)](#).



- updating the Quality Education Model;
- variation in local school district budgeting and costs;
- the impact of the Student Success Act;
- inclusion of early learning in education funding discussions;
- the relationship between the QEM and education quality goals;
- the evolution of quality education best practices since the QEC's creation;
- estimating costs associated with supplying educational services;
- accountability and assessment of student proficiency;
- integration of higher education and K-12 education systems;
- the temporary infusion of federal moneys due to COVID-19;
- balancing local revenues and state funds in funding calculations;
- effects of timber revenue on district budgets;
- prioritization of phased-in funding;
- educator and staff compensation and collective bargaining;
- appropriate student-educator ratios for all types of educational needs;
- forecasted changes in population and enrollment; and
- the contribution of the corporate tax kicker to state education funding resources.

On November 20, 2023, the committee met to review additional changes to the draft report and adopt the final text of the report. The committee also held discussions on:

- the Student Success Act and its relationship to the calculations in the QEM;
- modernizing the system of funding education across early learning, K-12, and higher education; and
- policy recommendations to be considered in future legislative sessions.

Oregon's Education Quality Goals

In 2001, the Legislative Assembly outlined the state's quality goals for kindergarten through grade 12 (K-12) public education in [ORS 327.506 \(2021\)](#), citing goals established elsewhere in statute. These goals are described below.

[ORS 329.015 \(2021\)](#) declares the Legislative Assembly's belief that the goals of K-12 education are:

- 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.

ORS 329.025 (2021) declares the intent of the Legislative Assembly to maintain a system of public education that:

- provides equal and open access and educational opportunities for all students regardless of linguistic background, culture, race, gender, capability, or geographic location;
- assumes that all students can learn and establishes high, specific skill and knowledge expectations and recognizes individual differences at all instructional levels;
- provides each student an education experience that supports academic growth beyond proficiency in established academic content standards and encourages students to attain aspirational goals that are individually challenging;
- provides special education, compensatory education, linguistically and culturally appropriate education and other specialized programs to all students who need those services;
- supports the physical and cognitive growth and development of students;
- provides students with a solid foundation in the skills of reading, writing, problem solving and communication;
- provides opportunities for students to learn, think, reason, retrieve information, use technology and work effectively alone and in groups;
- provides for rigorous academic content standards and instruction in mathematics, science, language arts, history, geography, economics, civics, physical education, health, the arts and world languages;
- provides increased learning time;
- provides students an educational background to the end that they will function successfully in a constitutional republic, a participatory democracy and a multicultural nation and world;
- provides students with the knowledge and skills that will provide the opportunities to succeed in the world of work, as members of families and as citizens;
- provides students with the knowledge and skills that lead to an active, healthy lifestyle;
- provides students with the knowledge and skills to take responsibility for their decisions and choices;
- provides opportunities for students to learn through a variety of teaching strategies;
- emphasizes involvement of parents and the community in the total education of students;
- transports children safely to and from school;
- ensures that the funds allocated to schools reflect the uncontrollable differences in costs facing each district;
- ensures that local schools have adequate control of how funds are spent to best meet the needs of students in their communities; and
- provides for a safe, educational environment.



[ORS 329.045 \(2021\)](#) directs the State Board of Education to review and revise its Common Curriculum Goals, performance indicators, and diploma requirements, which must include:

- the Essential Learning Skills and rigorous academic content standards in various subjects;⁴
- the opportunity for educators, parents, and the general public to offer public comment; and
- encouraging increased learning time that provides students with instruction in core academic subjects, health and physical education, enrichment activities, and provides teachers with professional development.

Finally, [ORS 329.065 \(2021\)](#) declares that major statewide initiatives and legislative mandates require adequate funding in order to implement and shall not be implemented before funding is available.

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 \(2021\)](#), 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.

⁴ The State Board of Education has suspended the requirement that students demonstrate proficiency in the Essential Learning Skills as a condition of graduation through the 2027-28 school year.



Quality Education Model

The Quality Education Model (QEM) was first developed in 1999 as a tool to fulfill the responsibilities of the QEC in evaluating educational practices, and estimating the level of funding that would be required to meet the state's goals. The current QEM combines a set of "costing components," which estimate the costs of a set of inputs that the commission believes are necessary to run a "highly effective system of schools," with a "student achievement component," which estimates the effects of initiatives and programs on student outcomes such as test scores and graduation rates. The commission describes the QEM as a "professional judgment model" that is enhanced by statistical analysis rather than a strictly quantitative model.⁵

The QEM's costing component uses the concept of prototype schools (elementary, middle, and high schools) to estimate the necessary resources to meet academic standards and performance goals. The characteristics of these prototype schools reflect research-based best practices for staffing levels, sufficient funds for staffing, professional educator development, operations and maintenance costs, and other factors that affect student outcomes and costs.

The QEM is updated every two years to reflect the commissioners' recommendations for recent data and new research that is relevant to improving student outcomes. More detail on the QEM can be found in the report released every even-numbered year. The commission is housed within the Oregon Department of Education (ODE), which provides professional staff support, and the commission's reports and meeting records can be found on [ODE's website](#).

Recommendations from the Commission

The 2022 QEC report contained six recommendations for improving student outcomes in addition to fully funding the QEM.⁶

1. Oregon should adopt statewide best practices that improve equitable outcomes and address the root causes of disparities rather than dedicating resources to interventions that only address symptoms of those disparities.
2. Oregon should maintain the current implementation of the Student Success Act and Corporate Activities Tax.
3. Oregon should increase equal opportunity and access to high-quality early learning programs that are developmentally appropriate, culturally specific, and inclusive.
4. Oregon should focus on social and emotional learning, which are necessary skills for students to learn effectively and thrive in social settings.

⁵ Quality Education Commission, *Quality Education Model: Identifying Best Practices and Calculating the Cost of a Quality Education* 8 (2022), available at https://www.oregon.gov/ode/reports-and-data/taskcomm/Documents/QEMReport_2022_VERSION2_Revised2_8_23.pdf.

⁶ Quality Education Commission, *Quality Education Model: Identifying Best Practices and Calculating the Cost of a Quality Education* 33 (2022), available at https://www.oregon.gov/ode/reports-and-data/taskcomm/Documents/QEMReport_2022_VERSION2_Revised2_8_23.pdf.



5. Oregon should build community partnerships between school districts and organizations that are best situated to provide services to students.
6. Oregon should build systems that incorporate continuous improvement and are able to accommodate the varying needs of schools within districts to improve outcomes independent of state funding.

Additionally, the QEC acknowledged in its 2022 report and subsequent letter to the JPEA that the model used to produce the cost estimates for the QEM is in need of significant modification in order to more accurately reflect changes to the education landscape in the past two decades.⁷

Required Funding and Strategies

According to the 2022 QEC report, full implementation of the QEM requires state resources of \$13.227 billion for the 2023-25 biennium. This amount was determined by estimating the cost of the fully implemented model based on projected student enrollment and the use of the costs generated by the QEM for the prototype schools, including costs associated with new prototype school resources needed at both the “current service” level and at the fully-implemented QEM, based on the professional judgement of the Commission. In its Appendix, the 2022 report itemizes the cost of the six model inputs that affect (increase) the funding gap, which total \$82 million. The cost of the remaining seven model inputs is not included in the report, but the cost of those inputs was factored into the QEM’s “current level of quality” calculation.

The total required to fully fund the QEM is \$21.7 billion. Estimated non-State School Fund and Fund for Student Success resources include property taxes, Public Employees Retirement System side account earnings, food service receipts, federal grants, local option levies, other grants-in-aid provided by the Department of Education, and other resources available to school districts.

As noted above, the QEC is directed to provide at least two funding alternatives for meeting quality goals. The 2022 report included the following two recommendations.⁸ It should be noted that these are not alternatives to current funding mechanisms, but rather are suggestions for continuing existing practices:

1. Continue to fund the Student Success Act.
2. Phase in full funding for the Quality Education Model, perhaps over two or three biennia.

⁷ Letter from John Rexford, Chair, Quality Education Commission, to Joint Committee on Public Education Appropriation (January 18, 2023), available at <https://www.oregon.gov/ode/reports-and-data/taskcomm/Documents/QEMClarificationLetter2023.pdf>.

⁸ Quality Education Commission, *Quality Education Model: Identifying Best Practices and Calculating the Cost of a Quality Education* 13 (2022), available at https://www.oregon.gov/ode/reports-and-data/taskcomm/Documents/QEMReport_2022_VERSION2_Revised2_8_23.pdf.



2023-25 K-12 Funding

State resources for K-12 education are distributed to school districts in two primary ways: (1) through the State School Fund (SSF) which represents the largest share, and (2) through the Oregon Department of Education (ODE) Grant-in-Aid (GIA) budget, which provides grant funding 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 tax revenues. GIA spending is resourced by a variety of revenue sources including federal funding and the Fund for Student Success, 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. Grant-in-Aid programs – including those funded by the Fund for Student Success - are summarized in Figure 7.



The single largest source of revenue to school districts and education service districts (ESDs) is State School Fund formula revenue, a combination of state resources, property tax revenues, timber revenue, distributions from the Common School Fund, and other local resources allocated to districts. Figure 1 shows total budgeted State School Fund formula resources for the current biennium (2023-25) and the amount for the previous biennium (2021-23). The local revenues are estimated by the Legislative Revenue Office as of May 2023. During the 2023-25 biennium, these local revenue estimates will be updated as more up-to-date information is made available.

Figure 1: School Formula Revenue 2021-23 and 2023-25

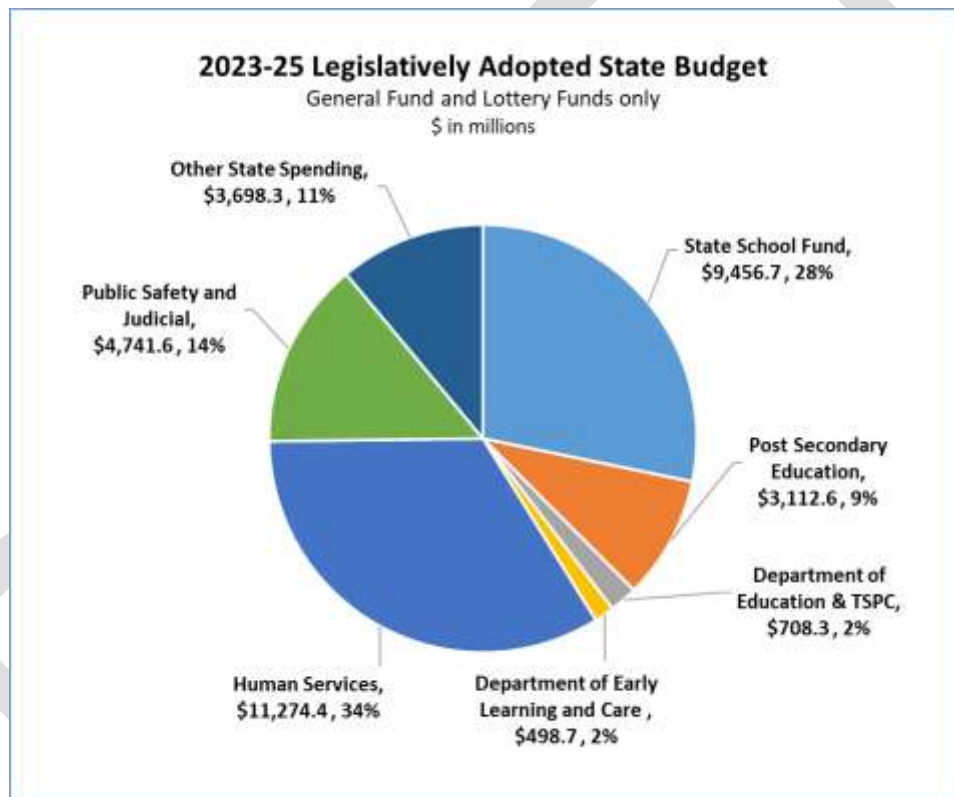
Total School Formula Resources 2023-25 LAB		
	<i>Leg Approved</i>	<i>Leg Adopted</i>
State Resources	2021-23	2023-25
General Fund	7,890.6	8,852.6
Lottery Funds	650.5	604.1
Other Funds	758.9	743.3
<i>Transfer from Fund for Student Success</i>	<i>722.3</i>	<i>702.0</i>
<i>Marijuana Taxes</i>	<i>36.0</i>	<i>40.8</i>
<i>Timber revenues</i>	<i>0.6</i>	<i>0.6</i>
Other Funds subtotal:	758.9	743.3
TOTAL State Resources	9,300.0	10,200.0
Local Resources (not in state budget)		
Net property taxes	4,499.4	4,918.2
Common School Fund	136.4	149.3
County School Fund	27.9	27.8
State Timber	48.8	48.5
TOTAL Local Resources	4,712.5	5,143.7
School Funding Formula Resources:	14,012.5	15,343.7

Source: Legislative Fiscal Office and Legislative Revenue Office



Overall, the SSF represents \$9.5 billion or 28.2 percent of the total \$33.5 billion in combined General Funds and Lottery Funds statewide for the 2023-25 biennium. Another \$41.4 million of marijuana tax and other revenues and a transfer of \$702 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 \$10.2 billion. Total General and Lottery Funds expenditures on education, including all K-12 spending as well as post-secondary and early learning spending, totals \$13.8 billion, accounting for 41.1 percent of statewide General Fund and Lottery Fund resources for 2023-25. Figure 2, below, shows the total General Fund and Lottery Funds budgets for the legislatively adopted 2023-25 state budget. The amount allocated to the Department of Education includes grant-in aid resources for the K-12 system and youth development programs.

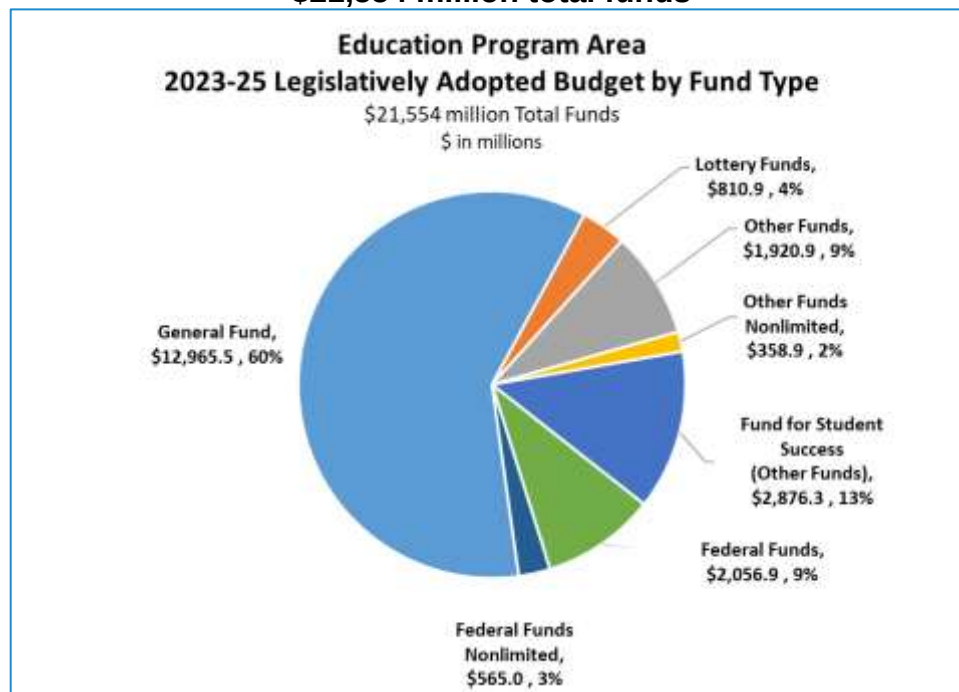
Figure 2: 2023-25 Legislatively Adopted Budget, Total Budget from General and Lottery Funds (in millions of dollars)



Source: Legislative Fiscal Office

The General Fund provides 60 percent of the resources for the entire education program area as shown in Figure 3. Note that the Fund for Student Success contributes significantly to K-12 education spending. It is 13 percent of total education program area spending, but constitutes 17.9 percent of K-12 spending.

**Figure 3: 2023-25 Legislatively Adopted Budget by Fund Type
Education Program Area
\$21,554 million total funds**



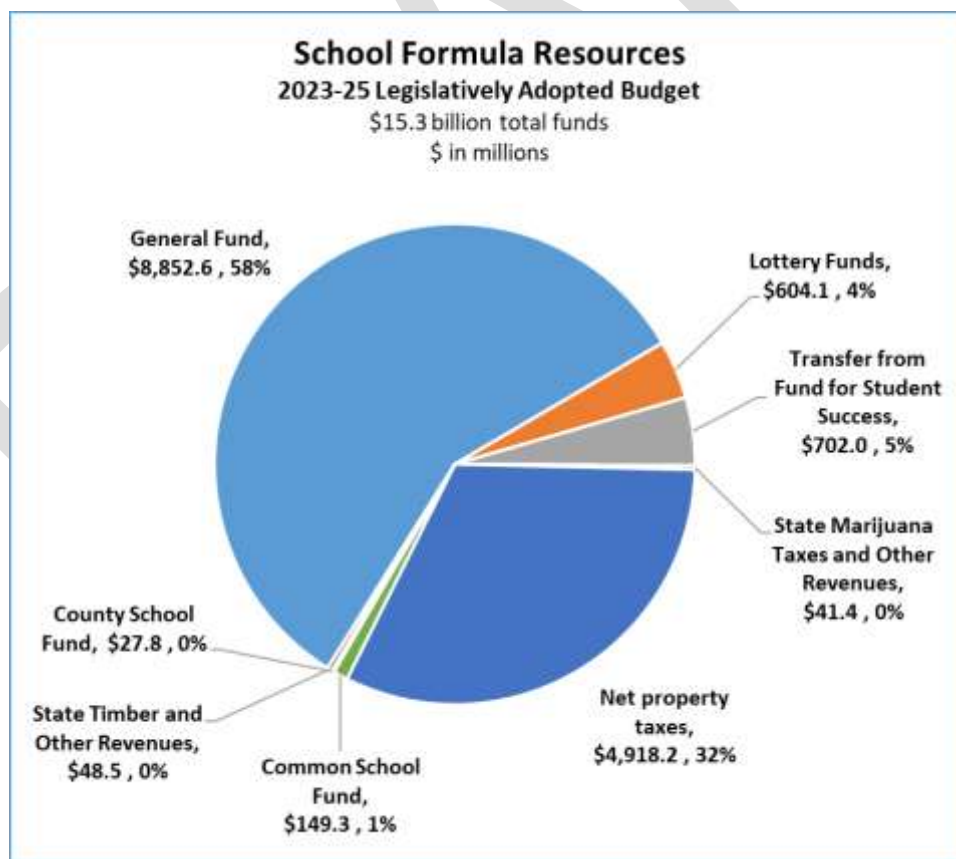
Source: Legislative Fiscal Office

Figure 4 shows the various state and local resources that make up total formula resources of \$15.3 billion for 2023-2025. State resources represent two-thirds of the total formula resources for 2023-25 (66.5 percent) and local resources represent one third of the total (33.5 percent).

Funds are transferred from the Fund for Student Success into the SSF for two purposes: 1) to deposit \$40 million per biennium into the High Cost Disability Account; and 2) to provide resources to the SSF that were lost due to provisions of [House Bill 3427 \(2019\)](#), which established the modified corporate activities tax that capitalizes the Fund for Student Success.

HB 3427 reduced personal income tax rates by 0.25% in the lowest three of the four personal income tax brackets. As personal income taxes are deposited in the General Fund for any lawful expense or obligation of the state, this provision of the measure had the effect of reducing resources available for state-funded programs, including K-12 education. The measure addressed the reduction of General Fund resources available to K-12 education by requiring a transfer from the Fund for Student Success into the State School Fund of the difference between personal income taxes generated at the former rate and personal income taxes generated at the reduced rate. No other state General Fund-supported programs received this revenue relief.

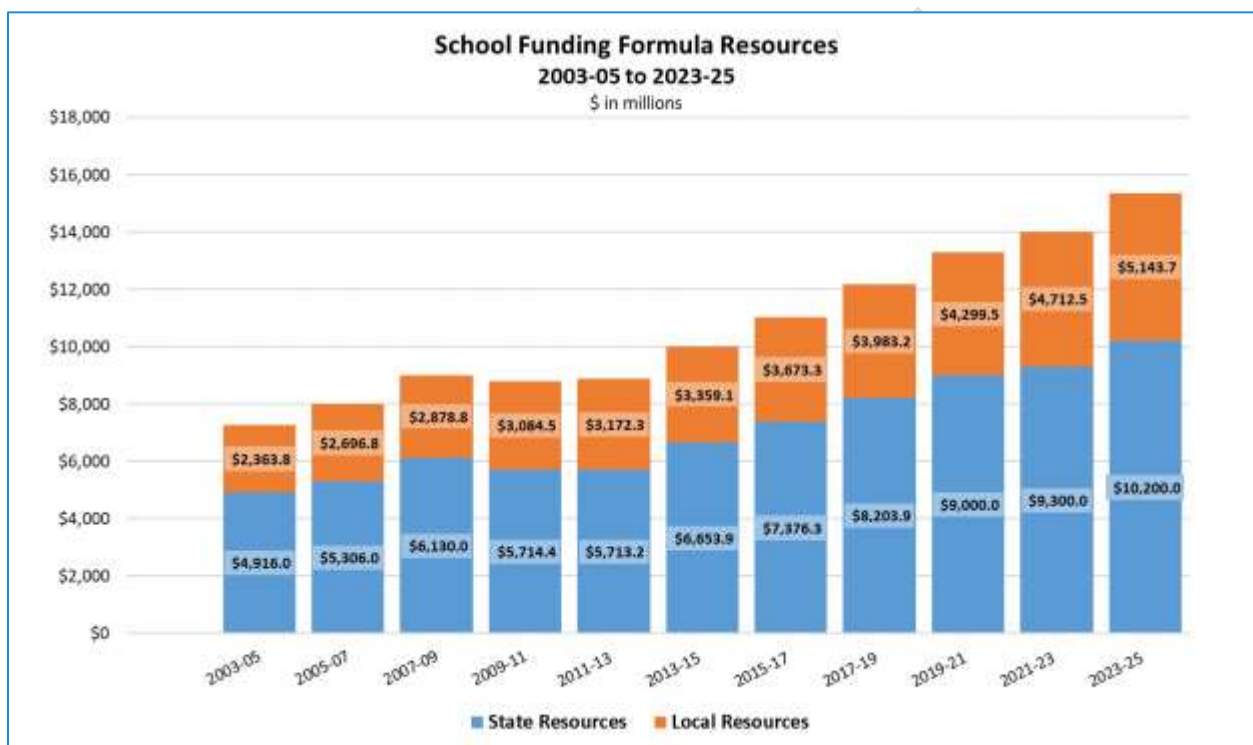
Figure 4: 2023-25 Legislatively Adopted Budget: K-12 School Formula Resources \$15.3 billion total funds



Source: Legislative Fiscal Office

Figure 5 shows the growth of school formula revenues over time. Between 2003-05 and 2013-15, formula resources grew, on average, 6.8% on a biennium-over-biennium basis. Between 2013-15 through 2023-25, total formula resources grew, on average, 8.9% on a biennium-over-biennium basis. Total formula resources for the 2023-25 biennium increased by 9.5% from 2021-23.

**Figure 5: School Formula Resources 2003-2005 to 2023-25
Total State and Local Resources (Millions of Dollars)**



Source: Legislative Fiscal Office

While most formula 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 and programs such as the School Safety and Emergency Management program, 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. 98 percent of the school formula revenues flow directly to school districts and ESDs.

Figure 6: State School Fund “Carve Outs”
2023-25 Legislatively Adopted Budget (Millions of Dollars)

2023-25 Set Asides or Carve Outs	Legal Citation	2023-25
Charter School Closure	ORS 327.008(3)	600,000
School Facilities Grant	ORS 327.008(8)	0
School Facilities Office	ORS 327.008(9)	8,000,000
Pediatric Nursing Facilities	ORS 327.008(10)	5,154,958
High Cost Disability	ORS 327.008(11)	110,000,000
Educator Advancement Fund - SSF Share	ORS 327.008(12)(a)	6,520,836
Educator Advancement Fund - SD/ESD shares	ORS 327.008(12)(b-c)	36,408,001
English Language Learners	ORS 327.008(13)	12,500,000
10th Grade Assessment	ORS 327.008(14)	968,000
Oregon Digital Learning	HB 5015 (2023)	1,600,000
Talented & Gifted	ORS 327.008(15)	350,000
Speech Pathologist	ORS 327.008(16)	150,000
Healthy Schools Facilities Fund	ORS 327.008(17)	2,000,000
Menstrual Products	ORS 327.008(18)	2,595,000
Small School Supplement	ORS 327.008(19)	5,000,000
Hospital/Residential Care	ORS 343.243	26,000,000
Local Option Equalization	ORS 327.339	4,000,000
Statutory Set Asides or Carve Outs		221,846,795
2023-25 New Carve-outs	Legal Citation	2023-25
School Safety & Emergency Management	SB 1002	3,000,000
Oregon Youth Challenge Program	SB 1034	4,268,766
New Set Asides or Carve Outs		7,268,766
Total Set Asides and Carve Outs 2023-25		229,115,561

Source: Legislative Fiscal Office

While the SSF and associated local revenues make up the largest share 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 Fund for Student Success, totaling over \$1.6 billion for the 2023-25 biennium. The largest amount (\$1.087 billion) is distributed to school districts as grants from the Student Investment Account
- 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 and operations of the Oregon Department of Education
- 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.

In addition, for 2023-25 there is \$529.7 million remaining in federal funding for COVID-19 pandemic relief. 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. Specifically, for the last round of Elementary and Secondary School Emergency Relief (ESSER) funds, no less than 20% of available funding was to be used to remedy pandemic-related learning loss.

Figure 7: Other Department of Education Spending*
2023-25 Legislatively Adopted Budget (Millions of Dollars)

Other K-12 Spending				
2023-25 Legislatively Adopted Budget				
\$\$ in millions				
	General & Lottery Funds	Fund for Student Success	Other & Federal Funds	Total Funds
Department Operations	102.7	52.7	140.2	295.7
Educator Advancement programs	-	10.4	67.9	78.4
Oregon School for the Deaf	15.4	-	7.4	22.7
Bond-Funded Programs	-	-	362.1	362.1
Debt Service	56.6	-	8.0	64.5
K-12 Grant-in-Aid programs				-
Student Investment Account	-	1,087.2		1,087.2
Student Success Grant Programs	178.6	306.9	196.1	681.7
District Capacity & Technical Assistance	2.5	51.6	4.3	58.4
STEM & CTE grant programs	33.7	-	36.1	69.7
School Nutrition	12.1	107.1	543.4	662.6
Educator Effectiveness & Professional Development	-	-	40.9	40.9
Closing the Achievement Gap	8.5	48.3	440.7	497.5
Specialized Student Services	264.2	93.3	427.0	784.4
Pandemic Relief Funds	-	-	529.7	529.7
Transfer to DELC (Early Learning Account)	-	438.2		438.2
Youth Development Programs	17.3	8.7	14.6	40.7
TOTAL	691.5	2,204.4	2,818.5	5,714.4

Source: Legislative Fiscal Office

*The amounts shown for Ballot Measure 98 (High School Success) and some other programs are double counted when General Fund is deposited into dedicated accounts and spent as Other Funds.



Student Success Act

[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.

[ORS 327.001](#) requires that funds within the Fund for Student Success be transferred to the State School Fund. As described above, the Student Success Act included reductions in income tax rates that reduced overall General Fund revenue for the state; the amount transferred to the State School Fund is the estimated amount of lost General Fund revenue for the biennium.

This ORS section also allows for a working fund balance for cashflow and future potential shortfalls in the revenue stream. The remaining amount is then distributed with at least 50 percent of the revenue going to school districts in the form of non-competitive Student Investment Account 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.

Sufficiency Determination

Based on the 2022 QEC report, it is the determination of the Joint Committee on Public Education Appropriation that state funding appropriated for the 2023-2025 biennium for K-12 public education is insufficient to meet the QEC's recommended funding levels. However, testimony presented to the committee indicated that the QEC has made changes to its model that resulted in a significant increase in the cost of the model. Several new inputs were added to the model without corresponding recommendations for how those inputs would translate to measurable outcomes.⁹ For example, additional school nurses, music teachers, media center assistants and days of summer school were factored in without any analysis or discussion of their effect on student outcomes or their cost to the model. Because of this, it is difficult to analyze a direct comparison of the gap in funding levels for the current biennium with the commission's recommendation.

The Quality Education Model (QEM) estimated that state resources of \$13.2 billion for K-12 would be required in the 2023-25 biennium to reach the state's quality education goals.¹⁰ This amount is based on the QEM's total cost for the fully implemented model of \$21.7 billion, offset by other revenues. These other revenues include property tax and

⁹ Quality Education Commission, *Quality Education Model: Identifying Best Practices and Calculating the Cost of a Quality Education* 11 (2022), available at https://www.oregon.gov/ode/reports-and-data/taskcomm/Documents/QEMReport_2022_VERSION2_Revised2_8_23.pdf.

¹⁰ Id. 10.



other local revenues, other state resources and various federal program funds (e.g., Special Education, nutrition) available to the K-12 system. The 2023-25 Legislatively Adopted Budget for State School Fund and Fund for Student Success resources totals \$11.7 billion, resulting in a gap of \$1.5 billion. The commission reports that funding amounts that are lower than the recommended funding level in the QEM are not likely to achieve a 90% graduation rate in a reasonable time frame.

Not included in the QEM calculation is any Elementary and Secondary School Emergency Relief (ESSER) federal pandemic relief funding, estimated at \$529.7 million in the 2023-25 budget. The last date by which districts can spend ESSER funding is September 30, 2024. This funding supports a wide variety of spending recommended by the QEC, but it is one-time in nature and will not be available in subsequent biennia. The JPEA notes that a useful future topic of research would be examining the effect on student outcomes of this large one-time infusion of funds into the K-12 education system.

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. A new cause of insufficiency for the 2023-25 biennium is cost inflation introduced into the QEM itself through increasing the number, types, and costs of model inputs, thereby increasing the cost of the model.

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 \$2.87 billion or 11.3 percent of total estimated General Fund revenues by the end of the 2023-25 biennium based on the September 2023 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 and reduces revenue further during some recessionary periods, thereby worsening the impact of recessions on the state General Fund. Kicker payments are provided to taxpayers through credits against personal income taxes owed. For 2023-25, the September 2023 revenue forecast estimates that a personal income tax kicker of \$5.6 billion will be credited during the tax filing season in 2024. This kicker payment will reduce the available revenues for 2023-25, which has been factored into the revenue forecasts.

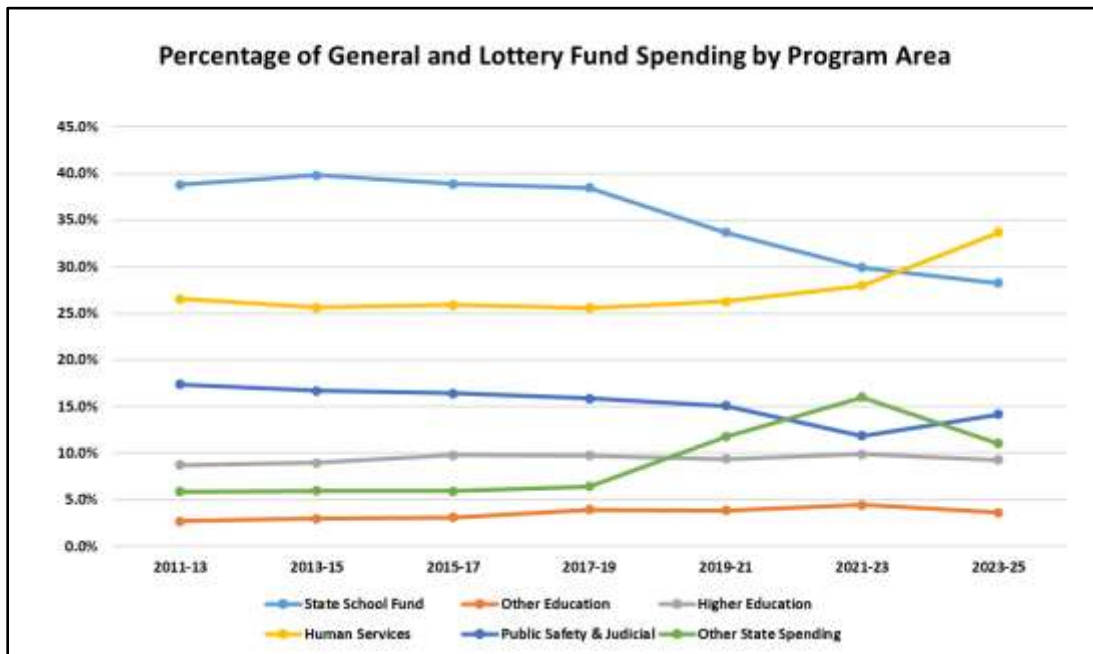
Competing for State Resources

The State School Fund represents the largest single expenditure in the state's General Fund, but there are other important budget areas that also must be funded or whose funding has been affected by outside factors. For example, public safety and judicial costs represent 14.2 percent of the General Fund and Lottery Funds budget for 2023-25; reductions to this area are limited by constitutional and statutory requirements that must be met. The best example of this limit is Ballot Measure 11 which requires mandatory minimum prison sentences for many felony charges.

As shown in the chart below, in the 2023-25 state budget the Health and Human Services program area surpasses the State School Fund as the largest expenditure in the statewide General and Lottery Funds budget, representing 33.7 percent of the total. Numerous federal changes in funding and requirements affect this budget area limiting the Legislature's flexibility to reduce costs. For the 2023-25 biennium, significant investments were made in health and human services programs to extend Oregon Health Plan coverage to more people; to improve the rates paid to providers of long-term care, nursing, behavior rehabilitation, and foster care services; and to stabilize such basic systems as food supply, clean drinking water, and housing. In the education budget area, programs other than K-12 education—such as early childhood education programs and higher education—both complement and compete for General Fund resources.



Figure 8: Percentage of General and Lottery Fund Spending by Program Area



Source: Legislative Fiscal Office

Cost Considerations

There are several common factors that drive the costs of providing educational services to students. These factors can be grouped into three general areas: costs associated with increasing student needs, increasing input prices including rising employee compensation, and higher operating costs as a result of enrollment changes.

Increasing Costs Due to Increasing Student Needs

Since the onset of COVID-19 in 2020, educators have reported a significant increase in the needs of students, particularly involving behavioral and mental health. These changes are difficult to quantify given the limited amount of reported data at the state level for some of the factors that may contribute to increasing costs.

According to the U.S. Census Bureau, poverty levels for children in Oregon age 5 to 17 dropped consistently between 2011 and 2020 before beginning to increase in 2021.¹¹ Additionally, temporary policy measures during the COVID-19 public health emergency such as expansions to the federal child tax credit and Supplemental Nutrition Assistance Program, which significantly lowered poverty rates nationally, have since

¹¹ U.S. Census Bureau, *Small Area Income and Poverty Estimates (SAIPE)*, https://www.census.gov/data-tools/demo/saipe/#/?s_state=41&s_county=&s_district=&s_geography=us&s_measures=5_17_fam (last visited October 6, 2023).

expired.¹² Students with lower socioeconomic status are more likely to face challenges with academic skills, housing stability and mobility, nutrition, and health care access, which tend to result in increased need for supplemental educational services. These higher costs are partially addressed by federal funds through Title I Part A of the Elementary and Secondary Education Act as amended (ESEA), and through state formula funds and grants. Educational challenges are particularly present for students who are experiencing homelessness, whose numbers also increased in the 2021-2022 school year after years of declines.¹³ Under the federal McKinney-Vento Act, districts must provide the necessary services to allow students experiencing homelessness to remain enrolled in school. Limited federal grant funds are available for this purpose, but not all districts receive these grants.

While students with disabilities are guaranteed the right to a free and appropriate public education under the federal Individuals with Disabilities Education Act (IDEA), the cost of meeting the educational needs of students with disabilities is generally higher than for other students. According to the QEM report, the proportion of students in Oregon receiving special education increased from 13.5 percent in 2016-2017 to 14.2 percent in 2020-2021, while the statutory limit on additional state formula funding for districts is 11 percent.¹⁴ Districts must cover the difference in cost through supplemental grant funds or their own operating budgets.

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 2.8 percent over the past 10 years based on information collected from school districts

¹² U.S. Census Bureau, *Expansions to Child Tax Credit Contributed to 46% Decline in Child Poverty Since 2020*, <https://www.census.gov/library/stories/2022/09/record-drop-in-child-poverty.html> (last visited October 6, 2023).

¹³ Oregon Department of Education, *Unduplicated State Totals 18-22*, available at <https://www.oregon.gov/ode/schools-and-districts/grants/ESEA/Documents/Unduplicated%20State%20Totals%2018-22.xlsx> (last visited October 6, 2023).

¹⁴ Quality Education Commission, *Quality Education Model: Identifying Best Practices and Calculating the Cost of a Quality Education* 30 (2022), available at https://www.oregon.gov/ode/reports-and-data/taskcomm/Documents/QEMReport_2022_VERSION2_Revised2_8_23.pdf; ORS 327.013(1)(c)(A)(i) (2021).



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)

Like other public employers in Oregon, school districts and education service districts (ESDs) contribute to the Public Employees Retirement System (PERS) for their employees' retirement benefits. Employer contribution rates are approved by the PERS Board in the fall of even-numbered years for rates that take effect on July 1st of odd-numbered years. As PERS rates are expressed as a percentage of payroll, payroll growth drives PERS costs, as do other factors including employee demographics, economic factors, and actions taken by employers to reduce pension obligation costs, such as through funding PERS side accounts. The 2019 Legislative Assembly approved changes to PERS that limit employer rates in [Senate Bill 1049](#), but PERS contributions remain a significant and variable expense for school districts. Rates can change from one biennium to the next based on investment earnings, PERS Board changes and assumptions, legislative changes, and court decisions.

Health Benefits

Like other private and public employers, 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 costs, health insurance costs for school districts continue to generally outpace the inflation rate. Most school districts purchase medical and dental 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 per year.

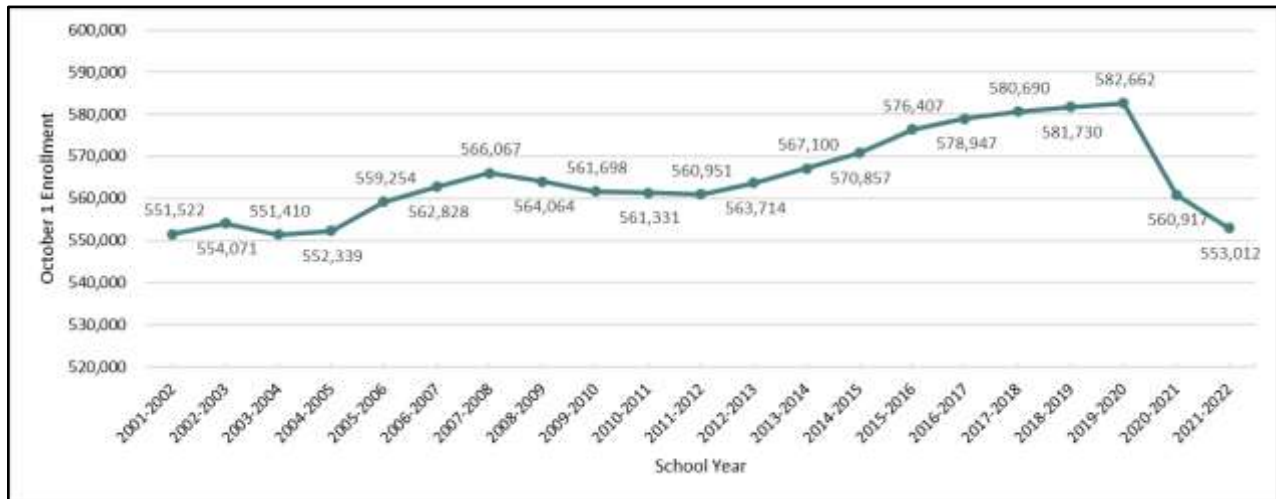
Declining Enrollment

As shown in the chart below, public school enrollment in Oregon declined during the COVID-19 pandemic. While enrollment numbers appear to have stabilized, they have not recovered to pre-pandemic levels, and recent demographic statistics for Oregon suggest that a full recovery to pre-pandemic levels is unlikely in the short term due to net out-migration from the state.¹⁵ Declining enrollment both affects (reduces) school funding to districts, and increases cost pressures related to fixed assets, such as school facilities.

¹⁵ Josh Lehner, Oregon Office of Economic Analysis, 2022 Migration: Who Left?, <https://oregoneconomicanalysis.com/2023/09/14/2022-migration-who-left/> (last visited October 9, 2023).



Figure 9: Statewide Student Enrollment from 2001-2002 School Year to 2021-2022 School Year



Source: Legislative Policy and Research Office

Biennial Comparisons

Changes to inputs in the Quality Education Model affect the cost of the model's output. If those changes are not quantified, then biennium-over-biennium direct cost comparisons cannot be made, and the effect of the additional inputs on student performance cannot be estimated. The 2022 QEM report makes thirteen changes to model inputs, the costs for six of which are included in the report's Appendix 1 and total \$82.1 million. The other seven input changes were made based on the Commission's professional judgement about the level of model inputs necessary to continue providing the current level of educational quality. Costs associated with these additional model inputs are not included in the report but have the effect of increasing the cost of the model overall, both at what the report characterizes as the "current service level," and at the fully implemented QEM recommendation level.

Impact of Insufficiency

According to the QEC's 2022 report, is it not possible to make direct, reliable predictions of how changes to education funding and practices would correlate with graduation rates and other student achievement outcomes using the QEM methodology.¹⁶ Instead, the commission relies on professional judgment when determining the necessary inputs to reach student achievement goals. The commission states that it relies on research literature that generally shows a positive correlation between increased funding levels and better student achievement outcomes.¹⁷

¹⁶ Quality Education Commission, *Quality Education Model: Identifying Best Practices and Calculating the Cost of a Quality Education 4-5* (2022), available at https://www.oregon.gov/ode/reports-and-data/taskcomm/Documents/QEMReport_2022_VERSION2_Revised2_8_23.pdf.

¹⁷ Id. 12.



Additionally, the commission cited the disruptions caused by the COVID-19 public health emergency, along with an updated set of inputs included in the costing model, as challenges to assessing the impact of the gap between the fully funded QEM recommendation and the actual appropriation.

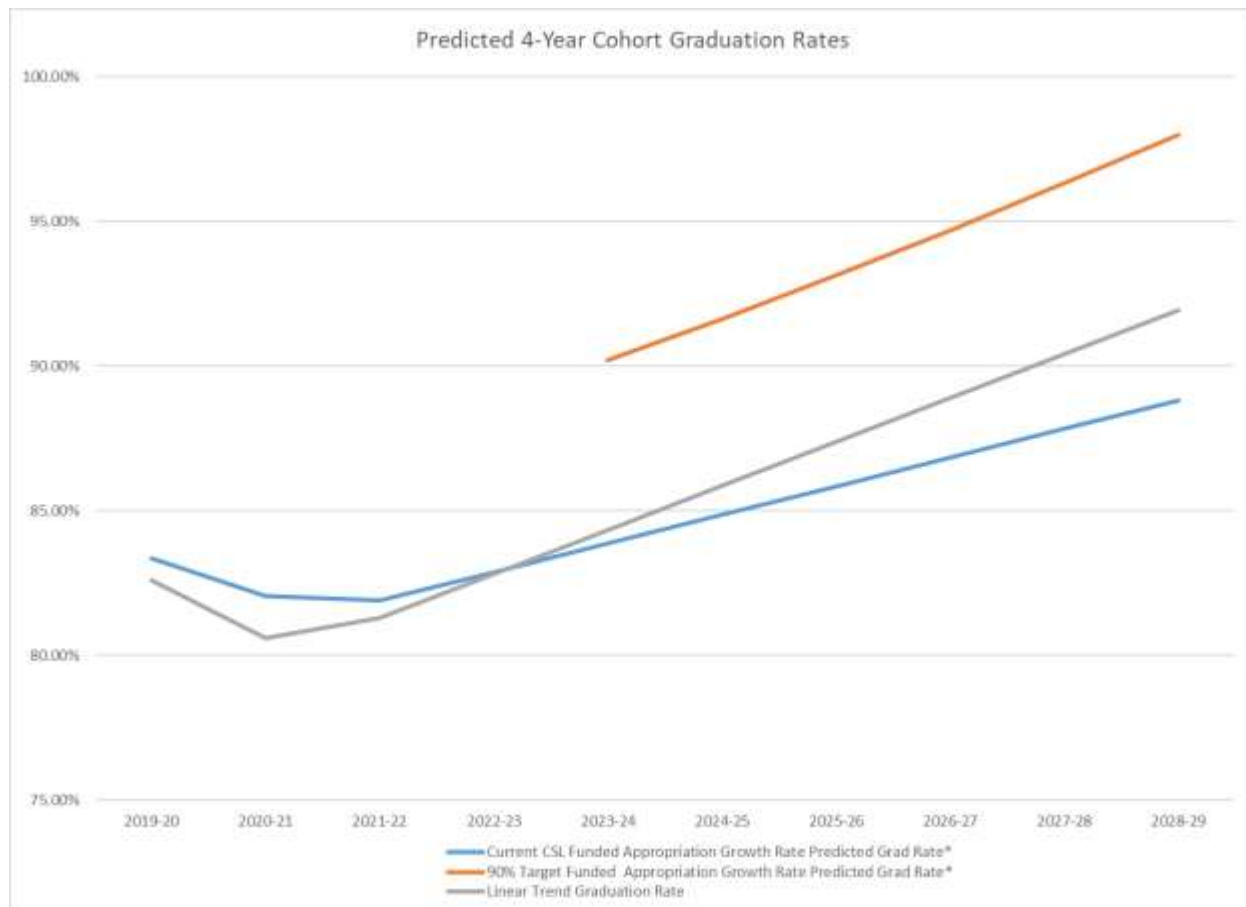
Although the QEC's report did not include such an assessment, a subsequent letter from the commission addressed to the JPEA included an analysis of the differences in predicted graduation rates associated with the fully funded QEM recommendation versus insufficient funding levels. According to the letter, Oregon's quality education goals are unlikely to be met if funding continues at the levels predicted by the commission's current service level calculation.¹⁸ However, with full funding at the QEM recommended level and continued investment each biennium, the commission projects that Oregon's 4-year graduation rates could reach 90% by the 2027-28 school year. The commission reports that increasing graduation rates beyond 90% will require a significantly higher investment compared to that required to increase graduation rates from current levels to 90%.

¹⁸ Letter from John Rexford, Chair, Quality Education Commission, to Joint Committee on Public Education Appropriation (January 18, 2023), available at <https://www.oregon.gov/ode/reports-and-data/taskcomm/Documents/QEMClarificationLetter2023.pdf>.



Figure 10 displays the QEC's comparison of historical and predicted graduation rates based on the fully funded QEM recommendation (orange), the commission's current service level calculation (blue), and a linear trend based on historical data (gray).

Figure 10: Predicted Graduation Rates at Current Funding Versus Full Funding



Source: Quality Education Commission

The commission's projection of graduation rates at various funding levels assumes a linear relationship between legislative appropriations and graduation rates. However, the commission notes that this relationship is not likely to be linear, and achieving incremental improvements in graduation rates above 90% would require significantly more investment than improvements in graduation rates below 90%. The commission also argues that funding levels are not the only predictor of graduation rates given the variation in how funds are spent. An alternative modeling approach would be needed to project graduation rates while accounting for these limitations. The chart makes a comparison between the fully funded QEM and the commission's own CSL calculation but does not make it possible to directly compare outcomes between the fully funded QEM and the actual funding level.

Early Learning System Goals

Although [ORS 171.857 \(2021\)](#) 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](#), as amended by [House Bill 3435 \(2023\)](#), declares the state's policy to implement programs for early childhood education, for parenting education that includes prenatal care, for child-parent centers, and for the Oregon Prenatal to Kindergarten Program, and that the latter shall be funded with a goal to have full funding for all eligible children. However, the statute does not set out any specific quality goals for the state's early learning system as a whole. In some cases, specific programs' definitions and enabling statutes state expectations for their respective programs. [ORS 329.175](#), as amended by [House Bill 3435 \(2023\)](#), states that the Oregon Prenatal to Kindergarten program "provide[s] comprehensive health, education and social services to children and their parents or other key family members, at any time beginning with prenatal care and continuing until the children enter kindergarten, in order to maximize the potential of those children prior to kindergarten entry." Similarly, [ORS 329.172\(5\)](#), as amended by [House Bill 3435 \(2023\)](#), establishes quality standards for providers in the state's Preschool Promise program. Finally, [ORS 343.465 \(2021\)](#), in declaring the state's policy of respecting uniqueness and cultural and linguistic diversity with regard to preschool children who experience disability, establishes some quality standards for services that affirm these values.

The goals laid out in statute for Oregon's early learning programs are not sufficiently measurable for this committee to determine 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. Therefore, the committee finds 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

[ORS 171.857 \(2021\)](#) 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 \(2021\)](#) 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. That 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 \(2021\)](#) 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.

DRAFT

