State School Fund
Current Service Level

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What is Current Service Level?

- Current Service Level (CSL) is required by law.
  - It is an estimate of the cost to continue current legislatively approved programs in the next biennium.
  - CSL starts with Legislatively Adopted budget through April/May of even years.
  - CSL is built on **assumed** revenues and **estimated** expenditures.
  - Estimate at a point in time, generally developed in May or June of even years.

For more information see pg. 28 off 2023-25 Budget & Legislative Concept Instructions.
https://www.oregon.gov/das/Financial/Documents/2023-25%20Budget%20Instructions.pdf

What Current Service Level Isn't

- It is not the current funding level.
- It is not a "floor" below which budgets cannot fall.
- It is not a ceiling beyond which budgets cannot grow.
- It does not guarantee a specific level of funding.

How is CSL Calculated for state programs?

- CSL starts with current Legislatively Approved Budget
  - Factor in Personal Services growth for ongoing positions, resets at lower costs for positions that turnover.
  - Programs phased-in for a full biennium.
  - Removal of one-time funding for programs.
  - Apply inflation factors, based on cost categories.
  - Changes for mandatory caseloads (caseloads can go up or down).
  - Fund shifts (local vs. state funding availability).

State Agencies Involved in the SSF CSL

- Department of Administrative Services, Chief Financial Office
- Legislative Fiscal Office
- Oregon Department of Education
- Legislative Revenue Office
- Office of Economic Analysis
- Public Employee Retirement System

The State's State School Fund CSL projection

- Department of Administrative Services works in conjunction with Legislative Fiscal Office on the overall calculation. DAS provides S&S inflation rate.
- Oregon Department of Education manages the school employee compensation model.
- Legislative Revenue Office produces the local revenue estimate used to determine local share of costs.
- Office of Economic Analysis provides the Corporate Activity Tax estimate and Marijuana Tax estimate.
- Public Employee Retirement System Board approves the pooled school district PERS rates that are used in the ODE compensation model.

How is the State School Fund CSL calculated?

- Ultimately the SSF CSL calculation is based on the "full formula," which factors in the availability of local revenues.
- Start with current Legislatively Approved Budget.
- Subtract set-aside amounts ("carve-outs")
  - These are allocations from the State School Fund for particular programs. They are established in statute, primarily in ORS 327.008.
- Factor in local revenues that are assumed in the current budget, estimate produced by Legislative Revenue Office.
- These operations result in the base budget on which the CSL calculations are made.

What is Full Formula? Determining the starting point.

	Calculation Summary
2021-23 Legislatively Adopted Budget	
State Funds	9,300,000,000
Less Carveouts	(228,966,833)
Local Funds	4,595,148,173
Total 2021-23 Formula Resources	**13,666,181,340**

Factors applied to the Full Formula of $13.7 billion

- Personal Services cost increases for districts (assumed to be 85% of total SSF formula, estimated using the ODE compensation model).
- Services and Supplies cost increases (assumed to be 15% of total SSF formula, utilizes statewide inflationary factor).
- Enrollment changes are based on the Average Daily Membership weighted (ADMw) projection.
- These factors are applied in each year of the biennium.
- State share is then adjusted for the amount of projected local revenue for the next biennium.
- Finally, carveouts are added back into the total.

Why doesn't the SSF CSL use a 49/51 split?

- No other known instances of a CSL budget built using this methodology.
- SSF appropriation bill has not been structured as 49/51 since 2013.
- Without Legislative direction to utilize a 49/51 split in the SSF appropriation bill, DAS/LFO have moved the calculation to 50/50.
- ODE allocates money to districts using a 49/51 split. Districts are responsible for managing their own budgets within the department's allocation methodology.

Personal Services Costs: How is the growth in health benefit costs captured in the model?

- A statutory cap of 3.4% on the cost of health care growth for the Oregon Educators Benefit Board was enacted with the passage of Senate Bill 1067 (2017).
- The model assumes an increase of the full statutory cap of 3.4% per year for each year of the biennium.
- The aggregate medical/dental/vision enrolled costs for OEBB plans has been 1.6% and 1.3% the last two years.
- Aggregate costs for 2022-2023, are projected to increase 3.2%, below the expenditure cap and the amount built into the ODE compensation model.

Source:
https://www.oregon.gov/oha/OEBB/Meeting%20Documents/OEBB-Board-Agenda-Attachments-20220503.pdf

Personal Services Costs: How are PERS rates determined?

School Districts Rate Summary

Weighted Average Total Rates (Tier One/Tier Two and OPSRP)

	Final 2021 - 2023	Final 2023 - 2025	Increase/ (Decrease)
Uncollared Total Base Rate	26.13%	22.38%	(3.75%)
Collared Total Base Rate	26.13%	27.03%	0.90%
Collared Base Employer Rate	24.88%	25.93%	1.05%
Collared Net Employer Rate	14.95%	15.16%	0.21%

Source: https://www.oregon.gov/pers/Documents/Board-Meetings/2022/07-22-2022-PERS-Board-Packet.pdf

How are Personal Service cost increases calculated?

- Personal Service cost increases are calculated using the Oregon Department of Education's compensation model.
- The model produces a projected percentage increase in Personal Services costs for each year of the upcoming biennium.
- The percentage is referred to as the blended compensation increase as it represents a statewide percentage increase for teachers, administrators and classified staff.

How does ODE's Compensation Model Work?

- The compensation forecast model uses seven statistical analyses that incorporate predicted compensation changes for 3 sectors of the education workforce.

- The model uses historical, actual data collected from districts on salaries and compensation and incorporates that data along with assumptions about future changes to project compensation changes in the future on a statewide basis.

- The 3 sectors are weighted and a single blended compensation increase is forecasted.

What assumptions are built into ODE's compensation model?

Each linear model (regression/historical linear) has assumptions.

- Teachers - uses predicted: turnover, inflation in the education sector, FTEs, new FTEs, and average salaries, as well as PERS rates, to predict compensation increase.
- Administrators – Assumes that salaries grow at the established long-run average share (20-year historical trend).
- Classified Staff – Salaries grow at the same rate as inflation.
- Weights for Calculating Overall Averages forecast at long-run average percentages from 2021-22 forward.

How accurate is ODE's Compensation Model based on past experience?

Teachers: Predictions have been very accurate, typically being within +/-2% of actual values outside of major market shifts, such as those experienced during the Great Recession in 2009 and 2010.

(Models below are based on historical trends in observed data)
Administrators: Similar performance to Teacher Compensation Forecast with predictions typically forecast within +/-2% of actual values.

Classified Staff: Model slightly overestimates classified compensation, with predictions typically lying within +3% of actual values.

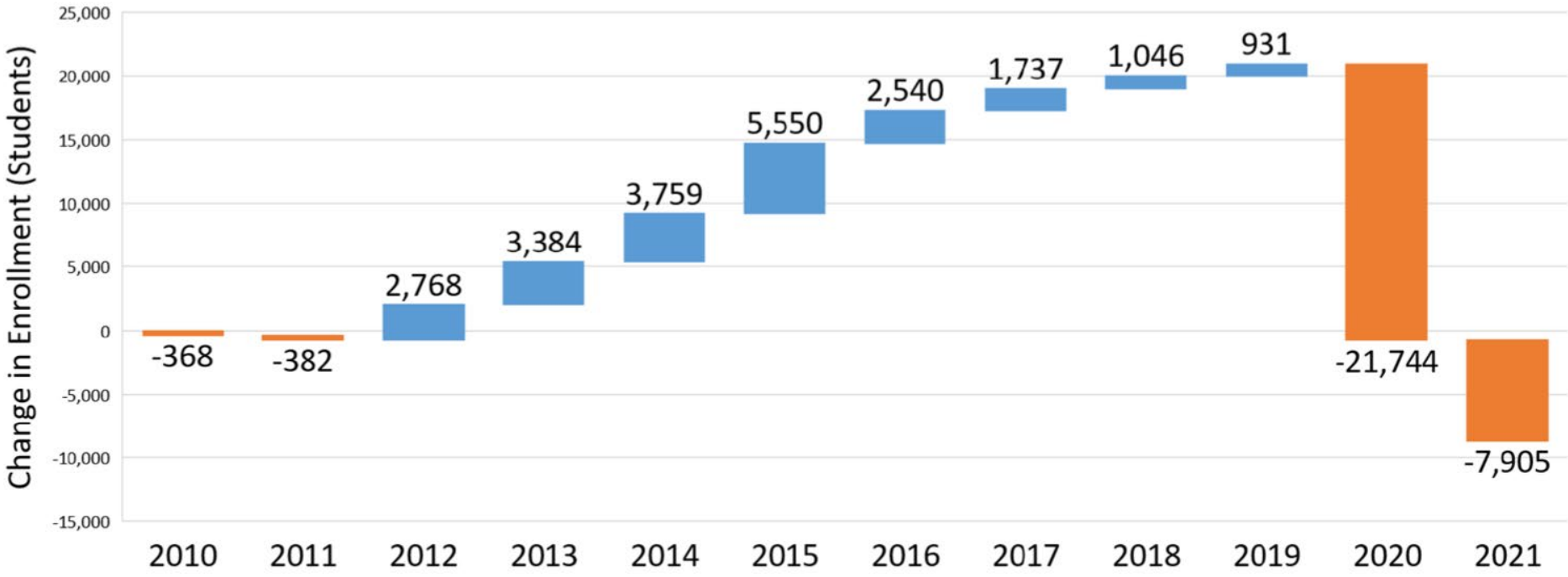
What are potential limitations of the model?

- Regression models assume that the relationship between variables are linear and that the relationship between the variables studied are largely consistent over time.
- Historical data models are reliable to the extent that the historical indicators incorporated in the model perform similarly in the future.
- Thus, not all model assumptions may be tenable, particularly during times of immense disruption (e.g., recessions, rapid inflationary environment).

How was enrollment estimated?

Yearly Enrollment Changes

First School Day in October



Oregon Department of Education Presentation to Senate Education Committee. January 17, 2023.

How was the inflation for Services and Supplies calculated?

- The SSF CSL model assumes 85% of the total base budget is personal services costs and 15% is related to Services and Supplies costs.
- 15% of the total formula revenue was inflated by the same inflationary rate given to all state agencies in their Services and Supplies budget, which was 4.2% or 2.1% per year.

Recap of the steps:

- Determine the full formula jump off point. (50/50)
- Personal Services cost increases for districts (assumed to be 85% of total SSF formula, estimated using the ODE compensation model).
- Services and Supplies cost increases (assumed to be 15% of total SSF formula, utilizes statewide inflationary factor).
- Enrollment changes are based on the Average Daily Membership weighted (ADMw) projection.
- These factors are applied in each year of the biennium.
- State share is then adjusted for amount of projected local revenue for the next biennium.
- Finally, carveouts are added back into the total.

Assumptions behind the Factors applied to the Full Formula in 2023-25 SSF CSL

Assumptions Used	2023-24 (%)	2024-25 (%)	Source:
Salary Increase for School Districts (Teachers)	2.53	2.56	ODE Education Workforce Compensation Model
Employer PERS (Net Rate increase from 14.95% to 15.16%	1.40	-	PERS Board Packet July 22, 2022
Contract Benefits Increase (assume Health)	3.40	3.40	SB 1067 (2017) Health Care Cost Growth Cap
Other Benefits increase	2.53	2.56	Assumed 1 percent of salary in ODE compensation model
Blended Compensation Increase (Net Rate)	2.78	2.67	ODE Education Workforce Compensation Model August 2022
Standard Inflation	2.10	2.10	Standard Inflation rates for Services and Supplies in 2023-25
Average Daily Membership weighted (5-yr. avg)	0.18	0.18	Five-year average in ADMw change from 2015-16 to 2020-21
Local Revenues	5.99	3.44	Legislative Revenue Office

ODE Comp. Model

Assumptions in blue impact the SSF CSL calculation indirectly as they are built into the ODE compensation model.
Assumptions in white are the direct factors applied to the Full Formula amount.

Calculate Formula Resources and State Share

Total 2021-23 Formula Resources	**13,666,181,340**
2021-23 Total Formula General Operating Resources (2nd Year Jump-off) (50% of state resources and year 2 of local revenues)	**6,868,673,437**
Adjustments for 2023-24 School Year	
Personal Services Inflation Estimate (85% of Total) X ODE blended compensation increase (2.78%)	162,430,186
Other Spending Estimate (15% of Total) X Statewide inflation rate (2.1%)	21,636,321
Increase in Average Daily Membership weighted (0.18%)	12,483,350
Total Adjustments	196,549,857
Estimated Formula Resources for 2023-24 School Year	**7,065,223,293**
Adjustments for 2024-25 School Year	
Personal Services Inflation Estimate (85% of Total) X ODE blended compensation increase (2.67%)	159,952,826
Other Spending Estimate (15% of Total) X Statewide inflation rate (2.1%)	22,255,453
Increase in Average Daily Membership weighted (0.18%)	12,827,954
Total Adjustments	195,036,233
Estimated Formula Resources for 2024-25 School Year	**7,260,259,527**
Total Estimated Formula Resources for 2023-25 (increase of $659.3 million or 4.8% from 2021-23)	**14,325,482,820**
Less Estimated Local Formula Revenue	(5,031,012,343)
Add new Carve Out Level Back in	223,246,795
State School Fund State Funds (increase of $217.7 million or 2.3% from 2021-23)	**9,517,717,272**

The State's State School Fund CSL Methodology

- Statewide model that does not account for budget decisions made by local districts.

- Relies on assumptions and the work of several State agencies, namely DAS, LFO, LRO, ODE and the direction of the Legislature.

- Is a tool for policymakers to consider in setting the Education budget and statewide budget decisions.