



January 2016

**Joint Special  
Committee on Public  
Education Appropriation**

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

2015-2017 Education Budget

## Introduction: Ballot Measure 1

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. . . .*

With regard to post-secondary public education, ORS 171.857 states:

*The Legislative Assembly shall identify in the report whether the state's system of post-secondary public education has quality goals established by law. If there are quality goals, the Legislative Assembly shall include in the report a determination that the amount appropriated in the budget is sufficient to meet those goals or an identification of the reasons the amount appropriated is not sufficient, the extent of the insufficiency 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 *Pendleton School Dist. v. State of Oregon*,<sup>2</sup> 18 school districts and 7 public school students sought a declaratory judgment requiring that the Legislative Assembly fund the Oregon public school system at a level sufficient to meet the quality educational goals established by law and a mandatory injunction directing the Legislative Assembly to appropriate the necessary funds. The Oregon Supreme Court 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 Article VIII, section 8, Oregon voters did not intend to achieve the level of funding required in that constitutional provision through judicial enforcement.”

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<sup>1</sup> Article VIII, Section 8(1), Oregon Constitution.

<sup>2</sup> 345 OR 596, 200 P3d 133.

## K-12 Quality Education Goals

### Oregon's Education Quality Goals

“Quality goals” for kindergarten through grade 12 (K-12) public education are specified in ORS 327.506, that references goals in the Oregon Educational Act for the 21<sup>st</sup> Century statutes found in ORS chapter 329.<sup>3</sup>

### Quality Education Commission

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

Under ORS 327.506, the QEC is directed to:

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<sup>st</sup> 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
  - At least two alternatives for meeting quality goals

The QEC developed the Quality Education Model (QEM) as a tool to depict Oregon's K-12 education system with sufficient detail and accuracy to help policymakers understand how schools allocate their resources, how various policy proposals affect funding needs, and how the level of resources provided to schools is expected to affect student achievement. The QEM describes and estimates the costs of activities that may result in identified outcomes. Prototype schools at the elementary, middle, and high school levels are used as exemplars of best practices research in effective and high performing schools. The prototype schools are not intended to be prescriptive nor are schools required to expend funds as recommended by the QEM.<sup>4</sup>

The 2014 QEC Report indicated that full funding of the QEM for the 2015-2017 biennium would require an allocation of \$9.158 billion to the State School Fund.<sup>5</sup> As noted above, the QEC is directed to provide

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<sup>3</sup> ORS 329.007 (Definitions), ORS 329.015 (Educational goals), ORS 329.025 (Characteristics of school system), ORS 329.045 (Revision of Common Curriculum Goals, performance indicators, diploma requirements, Essential Learning Skills and academic content standards; instruction in academic content areas), and ORS 329.065 (Adequate funding required). The full text of these statutes can be found in Appendix A.

<sup>4</sup> Quality Education Model Final Report, October 2014, pg. 50. Descriptions of prototype schools are available in Appendix B.

<sup>5</sup> QEM Report, pg. 62.

at least two alternatives for meeting quality goals. The 2014 report identified five areas for proposed investments and provided two alternatives for their implementation as follows:<sup>6</sup>

## **Impact Analysis and Student Achievement Expectations**

Because resources for education are limited, it is imperative that they be deployed in a way that maximizes student learning. In this section of the report we use the Quality Education Model to evaluate some proposed investments and policy interventions that have the potential to significantly improve student outcomes, both in terms of academic achievement and high school graduation.

### **Example 1: Early Reading**

Research continues to confirm that early success in learning to read has a dramatic impact on later success in school, on high school graduation, and on college-going and completion. Oregon's strategy to improve early reading has a number of components, including full-day kindergarten, summer and after-school programs, excellent teaching strategies, and aligned curriculum.

In this example, we use the Quality Education Model to evaluate the following initiatives:

- Full-day kindergarten, which will require approximately 885 FTE of additional teachers and 190 FTE of additional educational assistants statewide.
- Teacher coaching to improve the effectiveness of kindergarten through grade 3 teaching.
- Extra instruction, such as summer school and before and after-school programs, for students who are not on track to meet standards.
- Aligned, evidence-based curriculum.

Using the costing component of the Quality Education Model, we estimate the total cost of these initiatives, if fully implemented statewide, is approximately \$200 million per year, or \$400 million for a biennium. This investment in early reading is assumed to have the following impact on student performance:

- In the first year, 65% of 3th graders would be reading at grade level, up from 61% today.
- In the second year, 75% of 3rd graders would be reading at grade level.
- In the third year, 90% of 3rd graders would be reading at grade level.
- In the fourth year, when the first class to have full-day kindergarten statewide reaches 3rd grade, close to 100% of 3rd graders will be reading at grade level.

These improvements in reading proficiency by third grade, if realized, will show up as improved academic performance in later grades and to higher graduation rates as these students move through high school. Using the QEM's student achievement model to project the impacts of these

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<sup>6</sup> QEM Report, pg. 58 – 61.

improvements in reading shows that graduation rates will increase about one percentage point in 2023-24, when next year's third graders are due to graduate. In 2026-27, when next year's kindergartners are due to graduate, the graduation rates are estimated to be two percentage points higher. These estimates assume that close to 100 percent of 3rd graders will be reading at grade level by 2017-18.

### **Example 2: Increasing the graduation rate of boys**

The estimated coefficients of the student achievement model described earlier indicate that even when they have equivalent academic achievement, boys graduate from high school at rates that are nearly seven percentage points below those of girls. This suggests that there are strong factors other than academic achievement that are getting in the way of a large number of boys finishing high school. A number of factors may contribute to the lower graduation rate for boys, and many of them may be circumstances over which schools have very little control. Solving even a part of the problem, however, will pay large dividends. If this gap is eliminated, the graduation rate for boys will increase nearly 7 percentage points, increasing the overall graduation rate by 3.4 percentage points.

### **Example 3: Increasing the graduation rate of economically disadvantaged students**

Just as boys graduate at lower rates than girls with similar academic achievement, economically disadvantaged students graduate at much lower rates than students who have similar academic achievement but who are not economically disadvantaged. The reasons for this gap are not well understood. While it is true that economically disadvantaged students, overall, have academic achievement below their peers who are not economically disadvantaged, **even those students who do achieve at the same academic level as their more affluent peers graduate at much lower rates.** This finding is somewhat surprising. The conclusion of much of the research using aggregate data was that it was the lower academic performance of economically disadvantaged students that led to their lower graduation rates. Our analysis, based on individual student data, finds that even after taking into account academic achievement, economically disadvantaged student still have a large graduation gap. This result suggests that initiatives that can help students overcome **non-academic** barriers can raise graduation rates substantially. If this gap is eliminated, the graduation rate for economically disadvantaged students is estimated to increase by 8.5 percentage points, and the overall graduation rate by 3.6 percentage points.

### **Example 4: Increasing Attendance Rates**

The results of the student achievement model show that students with higher attendance rates have significantly higher rates of high school graduation. Students fail to graduate from high school for a variety of reasons, and disengagement from school—often showing up as poor attendance rates—appears to be a key factor. In this example, we assume that all students who have attendance rates of less than 90% will increase their rate to 90% within 4 years. To accomplish this, schools and districts are likely to need to implement a variety of strategies to improve student engagement.

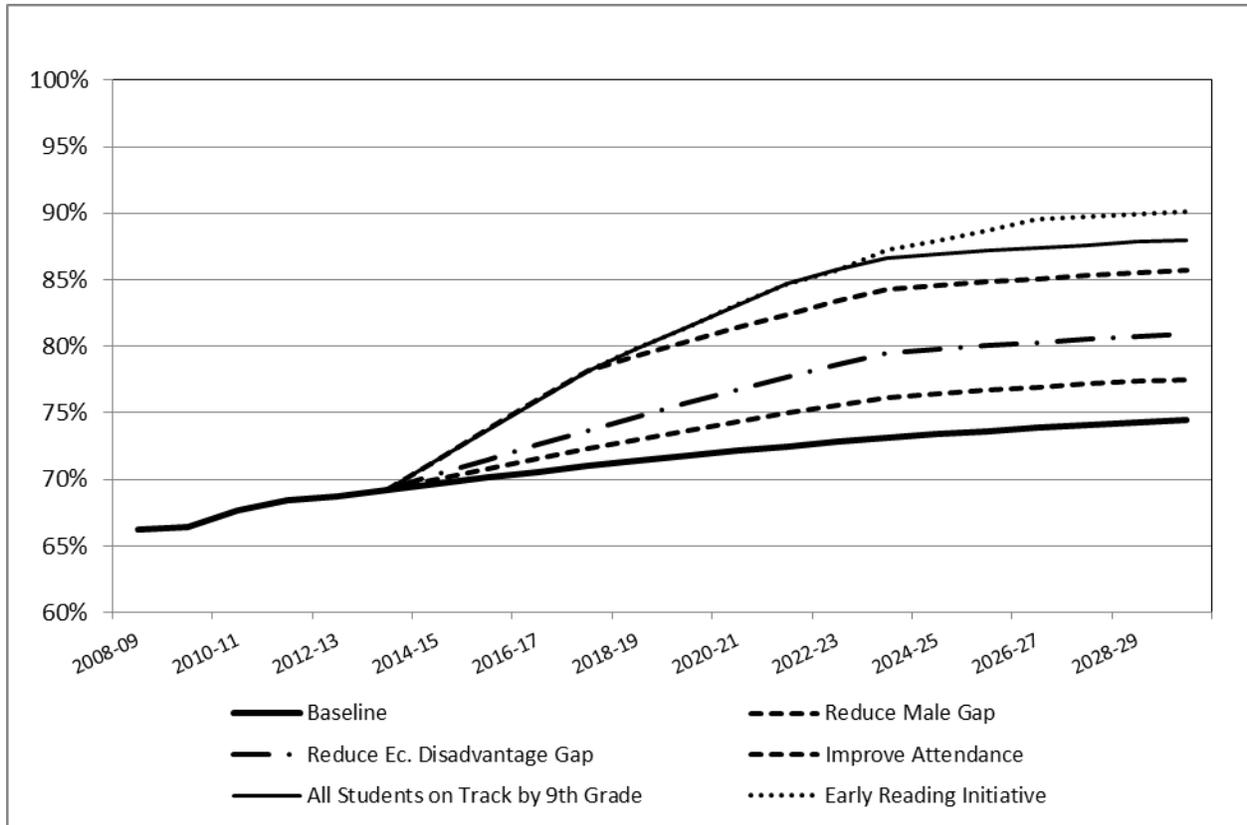
### **Example 5: All Students on Track by 9th Grade**

Chicago Public Schools has had success in recent years in increasing high school graduation rates by assuring that all students are on track by the end of 9th grade. In Oregon, the definition of “9th grade on track” is typically expressed in terms of credits earned. Because we do not have

comprehensive data on credits earned for all students in the state, for this example we define 9th grade on track as having passed the 8th grade benchmark. We assume that 100% of students are able to do that by the 2017-18 school year (i.e., within 4 years).

The chart below shows how predicted high school graduation rates would rise over time if all five of the initiatives described above had been implemented statewide starting with the 2014-15 school year.

### Cumulative Impact of Selected Initiatives on Graduation Rates



### Alternative Strategies: Evaluating Trade-Offs

Trade-offs are inherent in all public sector activities: Governments rarely, if ever, have sufficient resources to carry out all initiatives that have public benefits. Instead, governments need to make trade-offs, choosing the initiatives that provide the largest benefits and at the same time meet the specific goals. The education sector is no different.

As was presented above, the Current Service Level of funding for Oregon’s K-12 schools is \$2.38 billion below the level that the Quality Education Commission recommends if Oregon is to get close to meeting its 40-40-20 goals. Without a dramatic increase in funding in the near future, policymakers will need to make choices among a set of initiatives for improving student outcomes. The choices made will involve trade-offs among which students are served by new programs and

the timing of when the improvements will bear fruit in terms of noticeable student achievement gains, increased high school graduation rates, and progress toward 40-40-20.

In K-12 education, the trade-offs are of two basic types: 1) those related to which students will be the focus of new initiatives and programs; and 2) those related to the timing of investments and when the benefits are realized.

### **Trade-offs Related to Student Groups**

Students in subgroups with lower student performance levels will require additional attention if Oregon is to reduce its achievement gaps.

- English Language Learners
- Economically disadvantaged students
- Students of color
- Students with disabilities

### **Trade-offs Related to the Timing of Investments**

The focus of programs across grade levels will affect the timing of when the benefits will be realized in terms of boosting high school graduation rates.

- Early reading initiatives that focus on grades K-3 will have most, if not all, of their impact on high school graduation rates 9 to 12 year in the future.
- Programs focused on Pre-K students will have their impacts even further into the future; research shows that such programs have very large benefits, both cognitive and non-cognitive, that stay with students into adulthood.
- Programs that aid middle and high schools students will have impacts on high school graduation rates much sooner, but are likely to be smaller in overall impact, than those for students in the early grades or in Pre-K.

These are the two alternative strategies for meeting quality goals provided by the QEC as required by ORS 327.506.

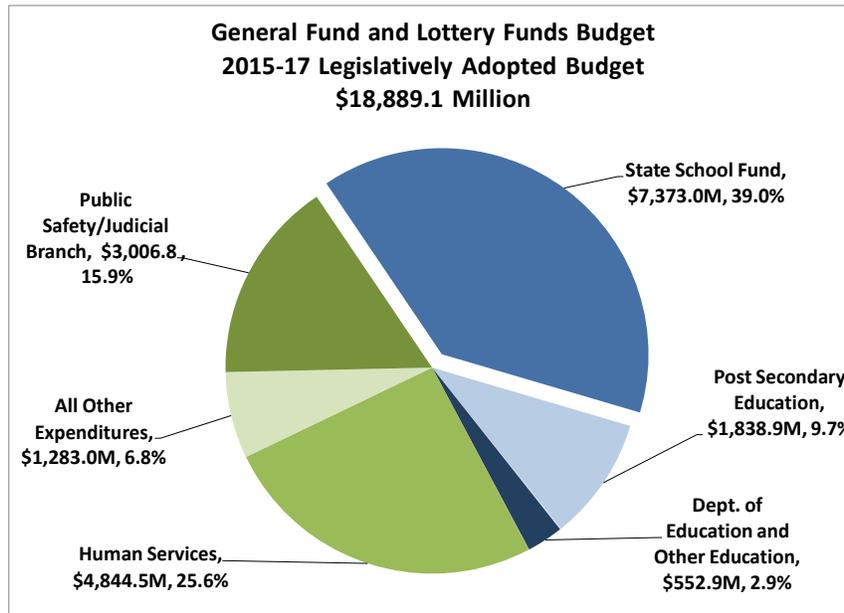
## 2015-2017 K-12 Appropriation

State resources for K-12 education are distributed to districts in two primary components – the State School Fund which represents by the far the largest share, and 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, professional development and Career and Technical Education (CTE).

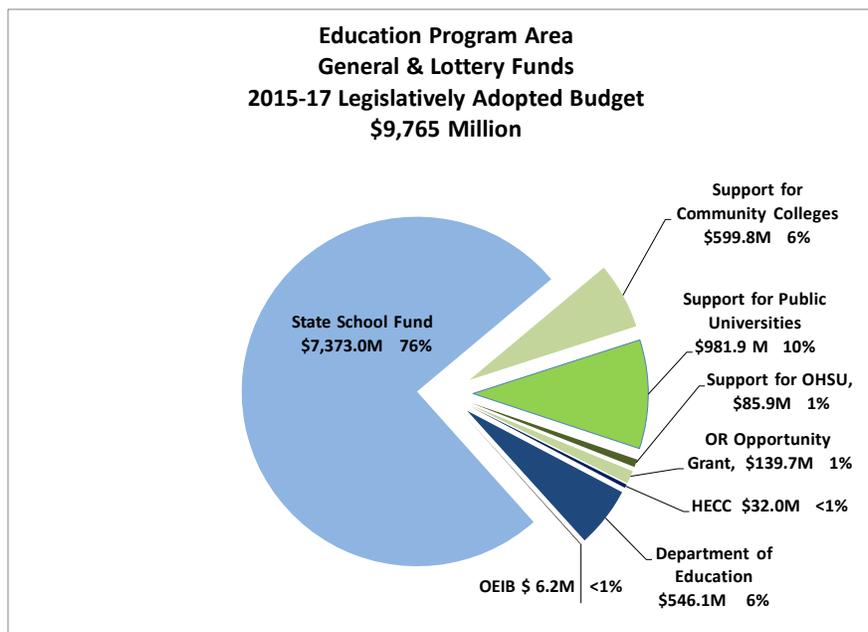
Of greatest significance to the sufficiency determination is the amount directed to the State School Fund and available for distribution to school districts and education service districts (ESDs) through the school revenue formula. The table below shows the amount budgeted for the current biennium (2015-17) and the amount for the previous biennium (2013-15). Please note that the amount for the State School Fund does not include the Other Funds limitation since almost all of that is for Local Option Equalization grants.

	<i>Millions of Dollars</i>	
	2013-15 Leg. Approved Budget	2015-17 Leg. Adopted Budget
State School Fund Resources		
General Fund	6,322.6	6,964.8
Lottery Funds	327.4	408.2
Total State School Fund	6,650.0	7,373.0
Local Revenue		
Property Tax & Timber Tax Revenues	3,178.1	3,498.7
Common School Fund	92.9	109.7
Other Local Revenue	88.0	64.9
Total Local Revenue	3,359.0	3,673.3
Total School Revenue Formula Resources	10,009.0	11,046.3

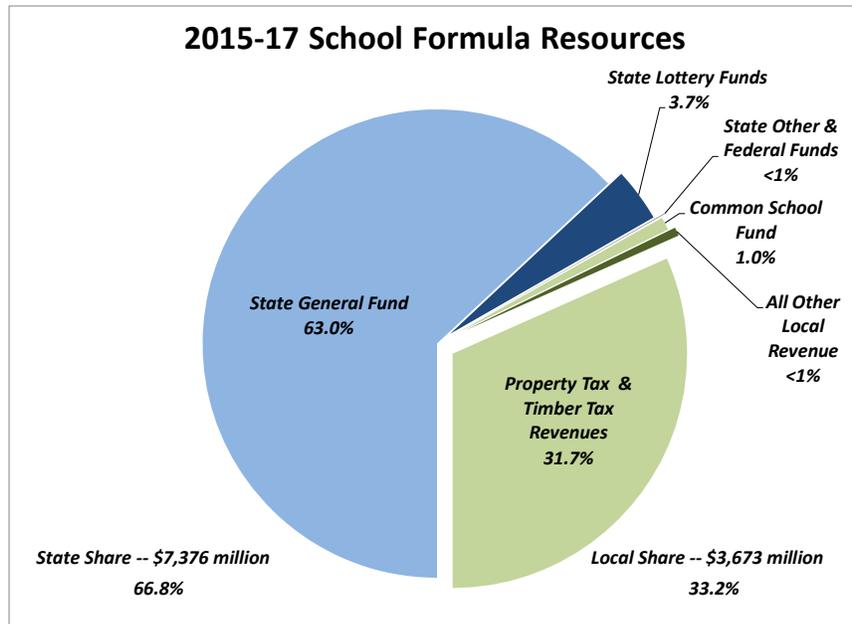
Overall, the State School Fund (SSF) represents \$7.373 billion or 39.0% of the total \$18.9 billion in combined General Funds and Lottery Funds for the 2015-17 biennium. Total education expenditures including post-secondary account for 51.7% for 2015-17. For 2013-15, the SSF represented 39.8% and all of education accounted for the same 51.7% in combined General Fund and Lottery Funds. The figure below demonstrates the division of General Fund and Lottery Funds for 2015-17 in the total state Legislatively Adopted budget.



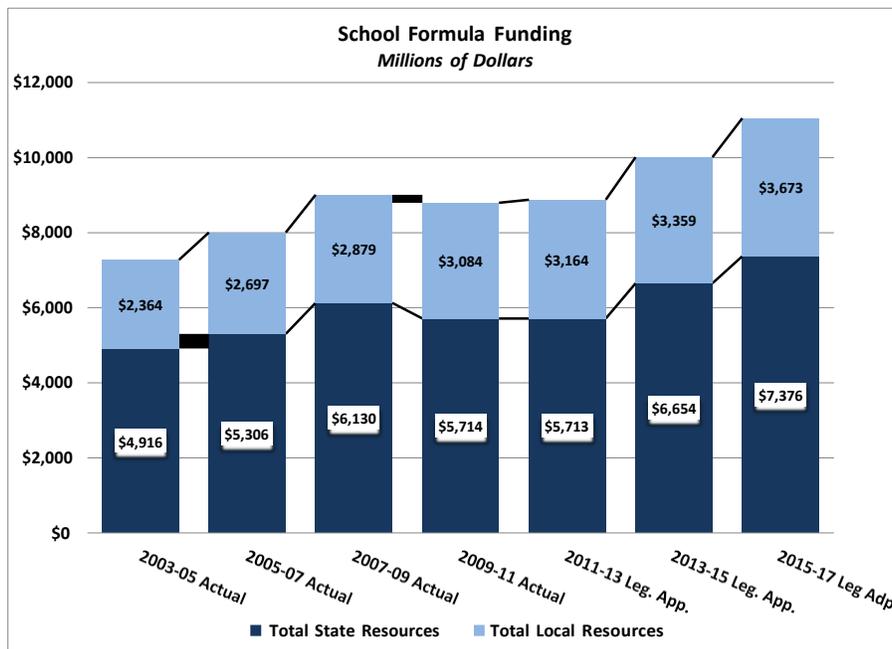
The State School Fund represents 76% of the total combined General Fund and Lottery Funds budget for all of the Education program area as shown below. This represents a decrease in its share of the program area from the 77% the SSF represented in the 2013-15 budget. This is due to the larger overall increase in post-secondary spending for 2015-17 driven by increases in Support for Community Colleges and Support for Public Universities which saw increases of 21.7% and 27.1% respectively between 2013-15 and 2015-17. The SSF saw an increase of 10.9% for the same period.



Overall, general purpose funding for School Districts and 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. The figure below shows state and local resources that are part of the calculation of the formula distribution for 2015-17 which totals \$11.05 billion. Overall, the SSF resources represent just over two thirds of the total formula revenues for 2015-17.



In the past two biennia, there have been increases in the amount available from state and local sources, a 12.8% increase between 2011-13 and 2013-15 and the 10.4% increase between 2013-15 and 2015-17. These two increases follow stagnant or even falling resources during the recession as shown in the graph below.



While the vast majority of funds available from state and local sources described above flow to school districts and ESDs, there are some distribution or “carve-outs” authorized by state law that are directed for specific purposes. Some of these resources are carved out from the State School Fund prior to calculating the distribution between 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 professional development (Network for Quality Teaching and Learning) or for English Language Learners. Others are distributed from the specific allocations for districts such as Facility grants and High Cost Disability grants. The estimated overall distribution of the State School Fund and the local resources through the carve-outs and formula are detailed in the table below.

<b>2015-17 State School Fund &amp; Local Revenues Distribution</b>		
<i>Millions of Dollars</i>		
<b>State School Fund General Fund and Lottery Funds</b>		<b>7,373.0</b>
<b>Less Selected Set-Asides &amp; Carve-outs &amp; Reserve Accounts</b>		<b>(100.5)</b>
Small School Supplement - 327.008(10)	(5.0)	
Business Audits - 327.008(10)	-	
Talented & Gifted - 327.008(13)	(0.4)	
Speech Pathologist - 327.008(13)	(0.2)	
Virtual School District - 327.008	(1.6)	
Long-term Treatment & OSD - 343.243	(23.0)	
Network for Quality Teaching (partial, more below)	(5.0)	
Local Option Equalization - 327.339 (will be undated by end of session to reflect newer levies)	(2.9)	
Pediatric Nursing Facilities	(5.1)	
English Language Learners (ELL)	(12.5)	
Nutrition Related	(2.4)	
Office of Educational Facilities (SB 447)	(2.5)	
Reserve Account (distributed to districts later in biennium)	<u>(40.0)</u>	
<b>Estimated Local Formula Revenues</b>		<b><u>3,673.3</u></b>
Property Taxes	3,498.7	
Common School Fund	109.7	
County School Fund	22.8	
State Managed Timber	38.1	
All Other	<u>4.0</u>	
<b>Total Amount to be Distributed to School Districts and ESDs</b>		<b>10,945.9</b>
School District Share (95.50%)	10,430.1	
Education Service Districts (4.5%)	<u>515.8</u>	
<b>School District Distribution</b>		
Total Amount Available	10,430.1	
Less Existing High Cost Disability Grants	(36.0)	
Less Additional High Cost Disability (2015 Session change)	(34.0)	
Less Facilities Grants	(12.5)	
Less School District Share of Network for Quality Teaching	<u>(15.5)</u>	
<b>Formula Revenue for Distribution to School Districts</b>		<b>10,332.1</b>
<b>Education Service District Distribution</b>		
Total Amount Available	515.8	
Less 10th Grade Assessment	(1.0)	
Less ESD share of Network for Quality Teaching	<u>(15.5)</u>	
<b>Formula Revenue for Distribution to ESDs</b>		<b>499.3</b>

While the State School Fund and associated local revenues make up the vast majority of K-12 funding, the budget for Oregon Department of Education (ODE) includes: (1) 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, professional development), and nutritional programs (e.g., school lunch); (2) resources for the operation of the Oregon School for the Deaf; and (3) the staff, operational, and other costs included in the Operations portion of the ODE budget. These resources are summarized in the table below. Not included in the table are those grant-in-aid programs directed to early learning and child care programs as well as for youth development.

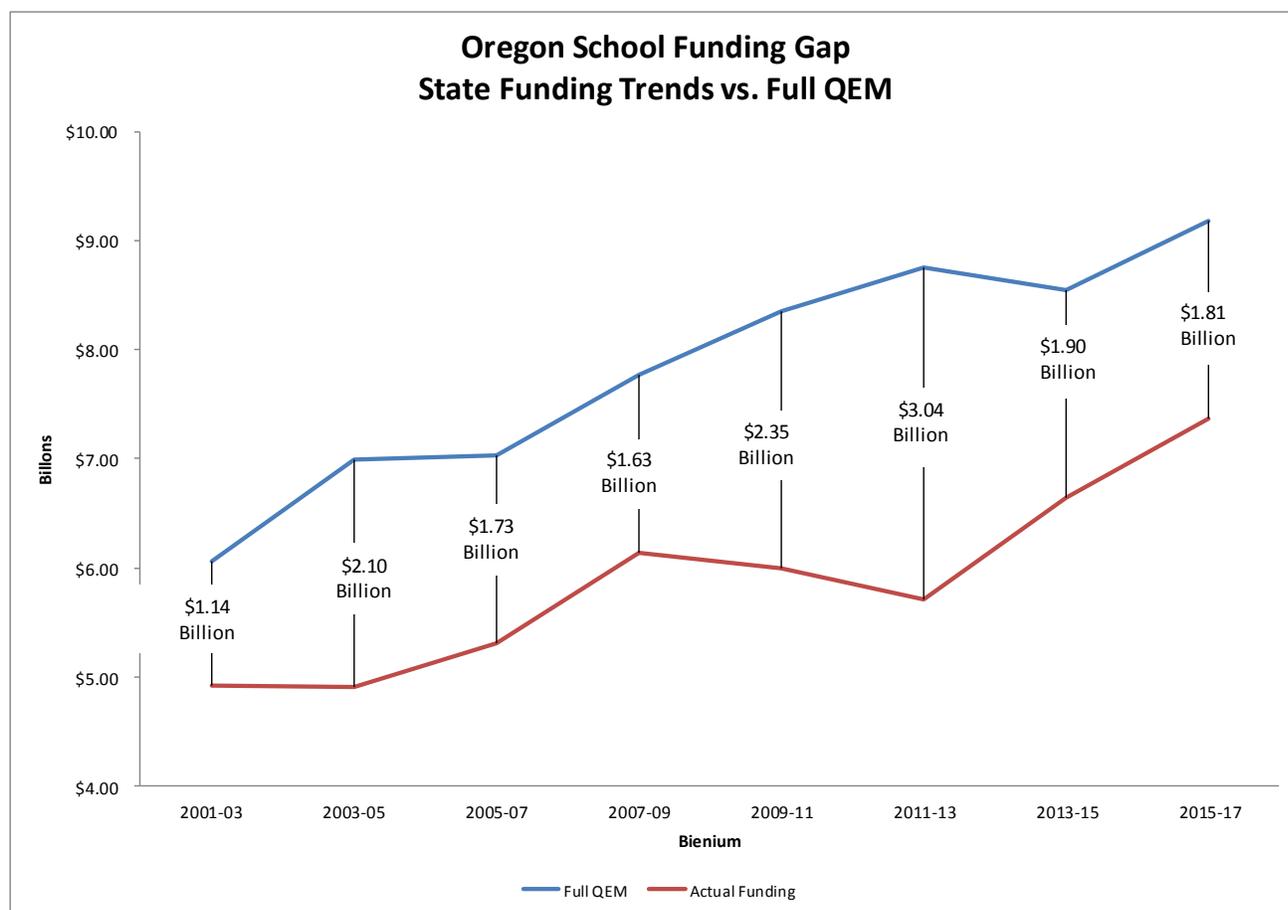
<b>Other K-12 Related Spending</b>		
	<u>2015-17 Leg. Adopted</u>	
	<b>General Fund &amp; Lottery Funds</b>	<b>Total Funds</b>
<b>Department of Education Operations</b> <i>(includes \$125 million OF limitation for school capital grants)</i>	61.89	296.76
<b>Oregon School for the Deaf</b>	11.51	15.91
<b>Youth Corrections</b>	-	18.70
<b>State Paid Debt Service</b>	1.43	1.43
<b>Grant-in-Aid Programs for K-12</b>		
Oregon Reads & Early Literacy Related Programs	1.53	1.53
Post Secondary Aspirations & Accelerated Credits	6.05	6.05
STEM and CTE Related Programs	33.72	33.72
Nutritional Programs	6.97	397.37
Physical Education Programs	0.38	4.50
Educator Effectiveness & Educator Professional Development (Network)	7.05	37.20
Closing the Achievement Gap (Network)	4.26	4.26
No Child Left Behind Program (NCLB)	-	431.48
Individuals with Disabilities Education Act (IDEA)	-	254.26
Early Childhood Special Education & Early Intervention (EI/ECSE)	150.39	178.51
Regional Programs	26.69	58.27
Long Term Care Program (LTCT)	18.26	43.00
Hospital Programs	1.32	8.97
Blind & Visually Impaired Student Fund	1.00	5.85
Other Grant Programs		75.04
<b>Total Grant-in-Aid</b>	<b>257.62</b>	<b>1,540.04</b>

## Sufficiency Determination

It is the determination of the Joint Special Committee on Public Education Appropriation that the amount of moneys appropriated for the 2015-2017 biennium for K-12 public education is insufficient to meet the recommended funding levels of the QEC. The QEM estimated that a State School Fund appropriation of \$9.158 billion for K-12 would be required to reach the State's educational goals.<sup>7</sup> An additional \$28.5 million required to implement full-day kindergarten based on a revised QEC estimate brings that total to \$9.187 billion. The adopted budget for 2015-2017 included an appropriation of \$7.373 billion, resulting in a gap of \$1.814 billion.

As the chart below indicates, the legislatively adopted budget for K-12 education has never equaled the amount recommended by the QEC. However, it should be noted that the current gap of \$1.814 billion constitutes the narrowest gap since 2007.

### Projected Oregon School Funding Gap



<sup>7</sup> QEM Report, pg. 62.

## **Factors Leading to Insufficiency**

All previous reports required by Ballot Measure One have pointed to inadequate revenue growth and rapid cost increases in the delivery of educational services as causes for insufficient funding of education. Once again, these factors are considered primary drivers of education funding insufficiency.

### **Revenue Growth Historically**

Understanding the state of school funding in Oregon today requires a review of the property tax limitation measures passed in the 1990s. Ballot Measure 5, passed in 1990, cut school property taxes dramatically by capping the school property tax rate at \$5 per \$1,000 of market value. Rapidly growing real estate market values in the early and mid-1990s caused property tax bills to continue to grow, and in response Oregon voters passed Measure 50 in 1997, further cutting property taxes. As a result, the amount of local funding for schools has been decreasing in inflation-adjusted dollars. Due to the dramatic decline in local property tax funding available for schools, more responsibility shifted to the state, with state general fund dollars becoming the primary source of funding for Oregon schools.

In addition to the impact of tax limiting Ballot Measures, Oregon's ability to increase funding in 2001-2003 and 2003-2005 was affected by the state's economic recession and voter defeat of two tax measures: Ballot Measure 28 (January 2003) referred to voters by the Legislative Assembly and Ballot Measure 30 (February 2004) proposed by referendum petition.

Ballot Measure 28 carried the option of increasing personal and corporate income tax rates for three years. It was referred to voters by the Fifth 2002 Special Session of the Oregon Legislative Assembly. Had it passed, it would have resulted in \$95 million, or an additional 4.2 percent, for K-12 public schools in 2002-2003.

The defeat of Measure 30 had the effect of implementing House Bill 5077 (2003) which reduced the State School Fund by \$284.6 million compared to the 2003 legislatively approved budget. In addition, the State School Fund was reduced another \$14.3 million because property tax revenue that would have been available under Measure 30 did not materialize. The overall reduction in the State School Fund was \$298.9 million.

### **Revenue Growth Currently**

As noted in previous reports, the state revenue system, dominated by the personal income tax, remains highly 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, but challenges to funding remain during economic downturns. As roughly two-thirds of K-12 operating revenue is derived from state funds, school finances remains especially vulnerable to the volatility of the personal income tax.<sup>8</sup>

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<sup>8</sup> Task Force on Comprehensive Revenue Restructuring, Final Report, January 2009, pg. 3.

The two-percent 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.<sup>9</sup> The surplus kicker revenue limit slows revenue growth during periods of economic prosperity, such as the 1990s, and reduces revenue further during recessionary periods such as the 2001 and 2009, thereby exacerbating the impact of recessions on the state General Fund.<sup>10</sup>

According to the August 2015 Summary of the Oregon Economic and Revenue Forecast:

Excluding corporate taxes, General Fund revenues exceeded the 2% kicker threshold by \$111 million (0.7%), resulting in a kicker credit of \$402 million. Due to actions taken by the 2011 Legislature, this kicker payment will take the form of a credit on 2015 tax returns rather than being issued as a check at the end of the year. Corporate tax revenues exceeded the 2% kicker threshold by \$38 million (3.6%), resulting in a kicker amount of \$59 million. Due to a 2012 ballot measure, this amount will be dedicated to K-12 funding.

Looking ahead through the rest of the current biennium, the outlook for available General Fund and Lottery resources has remained relatively unchanged. Although downside risks are mounting, the underlying outlook for employment and income growth has remained stable, leading to a stable revenue outlook.

The revenue outlook is stable, yet uncertain. Volatility in equity markets is injecting a great deal of risk into the forecast. Oregon's budget depends heavily on personal income tax collections tied to realizations of capital gains. These collections are extremely volatile, with revenues subject to the sometimes unpredictable behavior of investors. Although housing wealth has played a larger role in driving taxable capital gains over the last decade than in the past, earnings and losses in stock markets account for the lion's share of movements in taxable capital gains in the typical year.<sup>11</sup>

### **Cost Increases**

Although the number of Oregon students requiring specialized education services (English language learners, talented and gifted, and those identified under Individuals with Disabilities Education Act - IDEA), continues to climb, available state and federal revenues do not provide adequate resources to meet the recommended service levels identified in the QEM for any of these groups. Under IDEA, Congress set a goal to fund up to 40 percent of the average per pupil expenditure involved in educating students with disabilities, but this level of funding has yet to be realized. In 2013-2014, federal funds covered approximately 20 percent of costs. The state also provides additional revenue to offset some of the costs for districts that exceed the 11 percent cap and for students with disabilities whose costs exceed \$30,000 per year. This is done

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<sup>9</sup> *Ibid.*, pg. 10.

<sup>10</sup> *Ibid.*, pg. 13.

<sup>11</sup> Oregon Economic and Revenue Forecast Summary, August 2015.

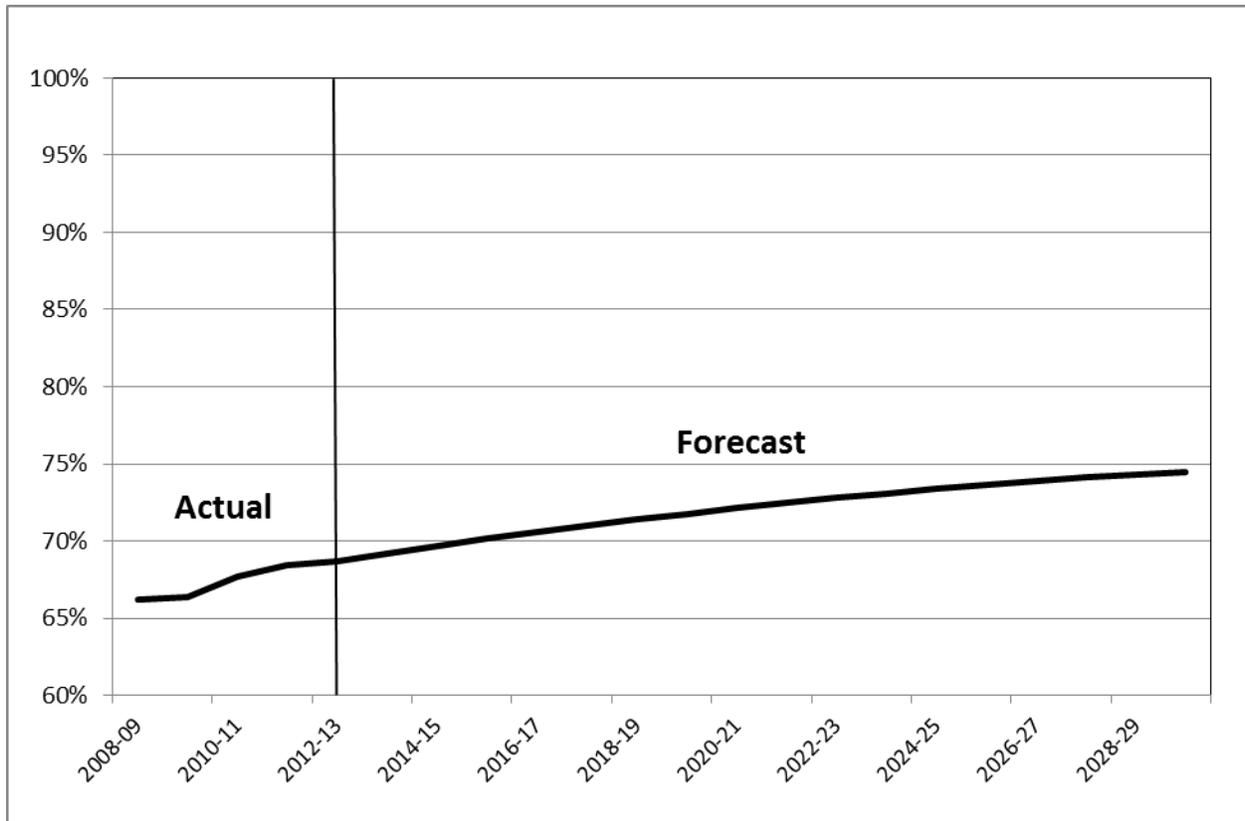
through two state school fund instruments, the 11% Cap Waiver Fund and the High Cost Disability Fund. However, school districts report that these funds can still fall short of actual costs. As a result, inadequate resources are available to meet the mandates of IDEA and performance of students with disabilities lags. The graduation rate for students on Individualized Education Plans (IEPs) receiving regular diplomas was 38 percent in 2014. In response, the Legislature raised the amount allocated to the High Cost Disability Fund from \$18 million to \$35 million per year starting in 2015-2016. State law also mandates that students who are talented and gifted be identified for specialized services, but funding that has been made available to serve this population of students has been inadequate.

## Impact of Insufficiency on Oregon’s Ability to Meet Quality Goals

The 2014 QEM report provided the following prediction regarding the relationship between school funding and achievement: <sup>12</sup>

The Current Service Level (CSL) of funding for K-12 schools is estimated at \$6.78 billion in state resources. When combined with local and federal resources, the total CSL for the 2015-17 biennium is \$13.08 billion. At that funding level we expect to continue to see modest rates of increase in graduation rates as Oregon’s schools continue to find ways to use resources more effectively. The chart below shows high school graduation rates in Oregon for the past 5 years along with a forecast of rates out to the year 2030 assuming current funding levels (adjusted for education sector inflation) continue. This forecast assumes modest increases in graduation rates based on Oregon experience over the past decade, during which inflation-adjusted funding levels actually declined. The continued growth in graduation rates, although modest, indicates that Oregon’s schools have continued to improve despite declining resources.

### High School 4-Year Cohort Graduation Rate



<sup>12</sup> QEM Report, pg. 57.

As the chart above indicates, one impact of continuing insufficiencies in K-12 funding will be that the state misses its 40-40-20 goal for high school graduation by a wide margin. Additional impacts of current service level funding versus fully-funded models on prototype schools are available in Appendix B.

## **Post-Secondary Quality Education Goals**

ORS 171.857 requires the Legislative Assembly to identify in this report “whether the state’s system of post-secondary public education has quality goals established by law.” Senate Bill 253 (2011) revised the mission and purpose of post-secondary education in Oregon by establishing numerical goals to be achieved by 2025. These goals specify that at least 40 percent of adult Oregonians will earn a baccalaureate degree or higher; at least 40 percent will earn an associate degree or post-secondary credential; and the remaining 20 percent will earn a high school diploma, extended or modified diploma, or the equivalent as their highest level of educational attainment. Sponsors of the legislation and Legislative Counsel agree that, due to its aspirational nature, this 40-40-20 plan does not establish the quality goals that would require a determination of sufficiency under Ballot Measure 1.

The Post-Secondary Quality Education Commission (established by a 2007 Executive Order) has developed a model designed to gauge the impact of improved performance in post-secondary education on Oregon’s certificate and degree attainment rates. The model is designed primarily to assess the impact of improved performance on a variety of educational measures – ranging from high school graduation to college completion.<sup>13</sup> With its release of the model, the commission recommended the following relatively low-cost strategies to improve retention and graduation rates at two- and four-year institutions: Improving remedial/developmental education; expansion of dual credit and advanced placement opportunities; and, identification and recruitment of adults who have attended college, but not graduated.

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<sup>13</sup> Postsecondary Quality Education Commission, Scenarios for Achieving the 40% 40% 20% Goal in Oregon

## **APPENDIX A**

### Oregon Educational Act for the 21<sup>st</sup> Century Selected Statutes

**329.007 Definitions.** As used in this chapter, unless the context requires otherwise:

- (1) “Academic content standards” means expectations of student knowledge and skills adopted by the State Board of Education under ORS 329.045.
  - (2) “Administrator” includes all persons whose duties require an administrative license.
  - (3) “Board” or “state board” means the State Board of Education.
  - (4) “Community learning center” means a school-based or school-linked program providing informal meeting places and coordination for community activities, adult education, child care, information and referral and other services as described in ORS 329.157. “Community learning center” includes, but is not limited to, a community school program as defined in ORS 336.505, family resource centers as described in ORS 417.725, full service schools, lighted schools and 21st century community learning centers.
  - (5) “Department” means the Department of Education.
  - (6) “English” includes, but is not limited to, reading and writing.
  - (7) “History, geography, economics and civics” includes, but is not limited to, Oregon Studies.
  - (8) “Oregon Studies” means history, geography, economics and civics specific to the State of Oregon. Oregon Studies instruction in Oregon government shall include municipal, county, tribal and state government, as well as the electoral and legislative processes.
  - (9) “Parents” means parents or guardians of students who are covered by this chapter.
  - (10) “Public charter school” has the meaning given that term in ORS 338.005.
  - (11) “School district” means a school district as defined in ORS 332.002, a state-operated school or any legally constituted combination of such entities.
  - (12) “Second languages” means any foreign language or American Sign Language.
  - (13) “Teacher” means any licensed employee of a school district who has direct responsibility for instruction, coordination of educational programs or supervision of students and who is compensated for such services from public funds. “Teacher” does not include a school nurse, as defined in ORS 342.455, or a person whose duties require an administrative license.
  - (14) “The arts” includes, but is not limited to, literary arts, performing arts and visual arts.
  - (15) “21st Century Schools Council” means a council established pursuant to ORS 329.704.
- [1995 c.660 §2; 1999 c.1023 §4; 1999 c.1029 §1; 2001 c.759 §1; 2003 c.303 §2; 2007 c.858 §1]

### **329.015 Educational goals.**

- (1) The Legislative Assembly believes that education is a major civilizing influence on the development of a humane, responsible and informed citizenry, able to adjust to and grow in a rapidly changing world. Students must be encouraged to learn of their heritage and their place in the global society. The Legislative Assembly concludes that these goals are not inconsistent with the goals to be implemented under this chapter.
- (2) The Legislative Assembly believes that the goals of kindergarten through grade 12 education are:
  - (a) 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;
  - (b) To provide an environment that motivates students to pursue serious scholarship and to have experience in applying knowledge and skills and demonstrating achievement;
  - (c) To provide students with the skills necessary to pursue learning throughout their lives in an

ever-changing world; and

(d) To prepare students for successful transitions to the next phase of their educational development.

[Formerly 326.710; 1995 c.660 §3; 2007 c.858 §2]

**329.025 Characteristics of school system.** It is the intent of the Legislative Assembly to maintain a system of public elementary and secondary schools that allows students, parents, teachers, administrators, school district boards and the State Board of Education to be accountable for the development and improvement of the public school system. The public school system shall have the following characteristics:

- (1) Provides equal and open access and educational opportunities for all students in the state regardless of their linguistic background, culture, race, gender, capability or geographic location;
- (2) Assumes that all students can learn and establishes high, specific skill and knowledge expectations and recognizes individual differences at all instructional levels;
- (3) 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;
- (4) Provides special education, compensatory education, linguistically and culturally appropriate education and other specialized programs to all students who need those services;
- (5) Supports the physical and cognitive growth and development of students;
- (6) Provides students with a solid foundation in the skills of reading, writing, problem solving and communication;
- (7) Provides opportunities for students to learn, think, reason, retrieve information, use technology and work effectively alone and in groups;
- (8) Provides for rigorous academic content standards and instruction in mathematics, science, English, history, geography, economics, civics, physical education, health, the arts and second languages;
- (9) 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;
- (10) 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;
- (11) Provides students with the knowledge and skills that lead to an active, healthy lifestyle;
- (12) Provides students with the knowledge and skills to take responsibility for their decisions and choices;
- (13) Provides opportunities for students to learn through a variety of teaching strategies;
- (14) Emphasizes involvement of parents and the community in the total education of students;
- (15) Transports children safely to and from school;
- (16) Ensures that the funds allocated to schools reflect the uncontrollable differences in costs facing each district;
- (17) Ensures that local schools have adequate control of how funds are spent to best meet the needs of students in their communities; and
- (18) Provides for a safe, educational environment.

[Formerly 326.715; 1995 c.660 §4; 1999 c.1029 §2; 2003 c.303 §3; 2007 c.858 §3; 2009 c.101 §2; 2009 c.843 §1]

**329.045 Revision of Common Curriculum Goals, performance indicators, diploma requirements, Essential Learning Skills and academic content standards; instruction in academic content areas.**

(1) In order to achieve the goals contained in ORS 329.025, the State Board of Education shall regularly and periodically review and revise its Common Curriculum Goals, performance indicators and diploma requirements. This includes Essential Learning Skills and rigorous academic content standards in mathematics, science, English, history, geography, economics, civics, physical education, health, the arts and second languages. School districts and public charter schools shall maintain control over course content, format, materials and teaching methods. The regular review shall involve teachers and other educators, parents of students and other citizens and shall provide ample opportunity for public comment.

(2) The State Board of Education shall continually review and revise all adopted academic content standards necessary for students to successfully transition to the next phase of their education.

(3) School districts and public charter schools shall offer students instruction in mathematics, science, English, history, geography, economics, civics, physical education, health, the arts and second languages that meets the academic content standards adopted by the State Board of Education and meets the requirements adopted by the State Board of Education and the board of the school district or public charter school.

[Formerly 326.725; 1995 c.660 §6; 1999 c.200 §29; 1999 c.1029 §3; 2003 c.303 §5; 2007 c.858 §4]

**329.065 Adequate funding required.** Nothing in this chapter is intended to be mandated without adequate funding support. Therefore, those features of this chapter which require significant additional funds shall not be implemented statewide until funding is available.

[Formerly 326.740]

**APPENDIX B**  
**2014 QUALITY EDUCATION MODEL FUNDING COMPARISONS**

**Prototype Elementary School—340 Students**

	<b>Current Service Level Prototype</b>	<b>Fully-Funded Prototype</b>	<b>Difference</b>
Kindergarten	Half-day	Full-day	Increases learning time
Average elementary class size	22 for Kindergarten 23 for grades 1-3 24 for grades 4-5	20 for grades K-1 23 for grades 2-3 24 for grades 4-5	Cuts class size by 2 for Kindergarten
K-5 classroom teachers	13.7 FTE	15.2 FTE	Adds 1.5 FTE
Specialists for areas such as art, music, PE, reading, math, TAG, library/media, second language, or child development	3.5 FTE	5.0 FTE	Adds 1.5 FTE
Special education licensed staff	2.5 FTE	3.0 FTE	Adds 0.5 FTE
English as a second language licensed staff	0.5 FTE	1.0 FTE	Adds 0.5 FTE
On-site instructional improvement staff	None	0.5 FTE	Adds 0.5 FTE
Instructional support staff	5.0 FTE	6.0 FTE	Adds 1.0 FTE
Additional instruction time for students not meeting standards: 20% of students	Limited	Summer school, after-school programs, Saturday school, tutoring, etc.	Additional programs for 20% of students
Professional development time for teachers	3 days	Equivalent of 7 days	Equivalent of 4 additional days
Dedicated Teacher Collaboration Time	Limited	2 hours per week	Additional 2 hours per week
Leadership development training for administrators	Limited	Equivalent of 4 days	4 additional days
Textbooks	\$65 per student	\$85 per student	\$20 per student
Classroom materials & equipment	\$80 per student	\$90 per student	\$10 per student
Other supplies	\$61 per student	\$90 per student	\$25 per student
Operations and maintenance	\$750 per student	\$838 per student	\$88 per student
Student transportation	\$455 per student	\$455 per student	
State-level special education fund	\$32 per student	\$92 per student	\$60 per student
Centralized special education services	\$95 per student	\$95 per student	
Technology services	\$190 per student	\$210 per student	\$20 per student
Other centralized support	\$306 per student	\$315 per student	\$9 per student
District administrative support	\$303 per student	\$303 per student	
Education Service District Services	\$556 per student	\$743 per student	\$187 per student
<b>Total Expenditure per Student in 2012-13</b>	<b>\$9,776</b>	<b>\$11,855</b>	<b>\$2,079</b>

\* The Baseline Prototype shows the Quality Education Model's prototype school costs estimated using the level of inputs that currently exist in Oregon schools.

## Prototype Middle School—500 Students

	Current Service Level Prototype	Fully-Funded Prototype	Difference
Class size in core subjects of math, English, science, social studies, second language	24	22, with maximum class size of 29 in core academic subjects	Cuts average class size by 1 in core subjects
Staffing in core subjects	19.5 FTE	21.0 FTE	Adds 1.5 FTE
Extra teachers in math, English, and science	0.5 FTE	1.5 FTE	Adds 1.0 FTE
English as a second language licensed staff	0.5 FTE	0.75 FTE	Adds 0.25 FTE
Special education and alternative education licensed staff	4.0 FTE	4.5 FTE	Adds 0.5 FTE
Media/Librarian	1.0 FTE	1.0 FTE	
Counselors	One for every 333 students	One for every 250 students	Adds 0.5 FTE
On-site instructional improvement staff	None	1.0 FTE	Adds 1.0 FTE
Instructional support staff	11.0 FTE	11.0 FTE	
Additional instruction time for students not meeting standards: 20% of students	Limited	Summer school, after-school programs, Saturday school, tutoring, etc.	Additional programs for 20% of students
Professional development time for teachers	3 days	Equivalent of 7 days	Equivalent of 4 additional days
Dedicated Teacher Collaboration Time	Limited	2 hours per week	Additional 2 hours per week
Leadership training for administrators	Limited	Equivalent of 4 days of training	4 additional days
Textbooks	\$55 per student	\$75 per student	\$20 per student
Classroom materials & equipment	\$80 per student	\$90 per student	\$10 per student
Other supplies	\$55 per student	\$80 per student	\$29 per student
Operations and maintenance	\$825 per student	\$894 per student	\$69 per student
Student transportation	\$456 per student	\$456 per student	
Centralized special education services	\$95 per student	\$95 per student	
State-level special education fund	\$32 per student	\$92 per student	\$60 per student
Technology Services	\$188 per student	\$210 per student	\$22 per student
Other centralized support	\$297 per student	\$323 per student	\$26 per student
District administrative support	\$319 per student	\$319 per student	
Education Service District services	\$556 per student	\$743 per student	\$187 per student
<b>Total Expenditure per Student in 2012-13</b>	<b>\$10,107</b>	<b>\$11,676</b>	<b>\$1,569</b>

\* The Baseline Prototype shows the Quality Education Model's prototype school costs estimated using the level of inputs that currently exist in Oregon schools.

## Prototype High School—1,000 Students

	Current Service Level Prototype	Fully-Funded Prototype	Difference
Class size in core subjects of math, English, science, social studies, second language	23	21, with maximum class size of 29 in core academic subjects	Cuts average class size by 2 in core subjects
Staffing in core subjects	42.0 FTE	44.0 FTE	Adds 2.0 FTE
Extra teachers in math, English, and science	1.5 FTE	3.0 FTE	Adds 1.5 FTE
English as a second language licensed staff	0.5 FTE	0.5 FTE	
Special Education and alternative education licensed staff	5.0 FTE	5.25 FTE	Adds 0.25 FTE
Alternative education and special programs	2.5 FTE	2.5 FTE	
Media/Librarian	1.0 FTE	1.0 FTE	
Counselors	One for every 333 students	One for every 250 students	Adds 1.0 FTE
On-site instructional improvement staff	None	1.0 FTE	Adds 1.0 FTE
Instructional support staff	20.0 FTE	20.5 FTE	Adds 0.5 FTE
Additional instruction time for students not meeting standards: 20% of students	Limited	Summer school, after-school programs, Saturday school, tutoring, etc.	Additional programs for 20% of students
Professional development time for teachers	3 days	Equivalent of 7 days	Equivalent of 4 additional days
Dedicated Teacher Collaboration Time	Limited	2 hours per week	Additional 2 hours per week
Leadership training for administrators	Limited	Equivalent of 4 days	4 additional days
Textbooks	\$60 per student	\$80 per student	\$20 per student
Classroom supplies and materials	\$120 per student	\$130 per student	\$10 per student
Other supplies	\$69 per student	\$102 per student	\$33 per student
Operations and maintenance	\$875 per student	\$958 per student	\$83 per student
Student transportation	\$475 per student	\$475 per student	
Centralized special education services	\$95 per student	\$95 per student	
State-level special education fund	\$32 per student	\$92 per student	\$60 per student
Technology Services	\$193 per student	\$210 per student	\$17 per student
Other centralized support	\$311 per student	\$355 per student	\$44 per student
District administrative support	\$319 per student	\$319 per student	
Education Service District services	\$556 per student	\$743 per student	\$187 per student
<b>Total Expenditure per Student in 2012-13</b>	<b>\$10,259</b>	<b>\$11,778</b>	<b>\$1,519</b>