



May 2003

# Ballot Measure 1

## Report from the Legislature

### 2001-2003 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>*

**Ballot Measure 1  
Report from the  
Legislature**

The 2001 Oregon Legislature enacted ORS 171.857 that specified the contents of the report. That statute reads, in part,

*Membership:*

Sen. Ryan Deckert  
Co-Chair

Rep. Susan Morgan  
Co-Chair

Sen. Ken Messerle  
Rep. Elaine Hopson

*. . . The Legislative Assembly in the report shall demonstrate 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 identify the reasons that the amount appropriated for . . . 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 . . .*

*Staff:*

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“Quality goals” for kindergarten through grade 12 (K-12) education are specified in ORS 327.506, which references goals in the Education for the 21<sup>st</sup> Century statutes, ORS chapter 329. In regards to post-secondary education, the same statute 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.*

NOTE: Because of the changing budget levels during the 2001-03 biennium due to special sessions, this report has been prepared later than 180 days following regular legislative session. Due to this, there is information contained in this document that would not have been available within 180 days of legislative adjournment, the time period the report would normally be prepared, as directed by statute.

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

## K-12 Schools Funding

### Quality Goals

“Quality goals” for Oregon's state system of kindergarten through grade 12 public education include those established under ORS 329.007, 329.015, 329.025, 329.035, 329.045, 329.065, 329.465, 329.475, and 329.487.”<sup>2</sup> These sections of statute include a statement of education goals, characteristics of school system, legislative findings, need to review and modify common curriculum goals, that adequate funding be required prior to the provisions of ORS chapter 329 being implemented, Certificates of Initial Mastery requirements, Certificate of Advanced Mastery requirements, and second language requirements.

### What Funding Level is Sufficient?

The funding level sufficient for K-12 students to meet “quality goals” has not been inarguably identified. Other states are grappling with this concept, as lawsuits are filed citing that funding is inadequate. Oregon's School Distribution Formula attempts, to some degree, to gauge relative student education costs by its system of student weightings—that some students cost more to educate than others—but does not assign an actual per student cost. It should be noted that the funding formula was not designed to gauge costs, but rather distribute revenue. House Speaker Lynn Lundquist created a council in 1997 to try to determine the cost of a quality K-12 education. This effort was endorsed by Governor John Kitzhaber and codified by the legislature in 2001.

### *Quality Education Model*

The Quality Education Commission (QEC) is assigned the task of determining “the amount of moneys sufficient to ensure that the state’s system of kindergarten through grade 12 public education meets the quality goals”<sup>3</sup> and attempts to link school spending with student performance. Using the December 2000 Quality Education Commission report, the QEC reported that full implementation of the Quality Education Model would cost \$6.061 billion<sup>4</sup> for the 2001-03 biennium, or \$5,762/ADMw<sup>5</sup> in the first year and \$5,880/ADMw in the second year.<sup>6</sup> Actual funding for the 2001-03 biennium was \$4.919 billion. This represents funding K-12 education at 81% of the amount recommended by the QEC. The 2000 QEM does not forecast the impact of budget reductions on best practices and student performance, although QEC staff may prepare possible spending scenarios with reduced funding.

### *Oregon Benchmarks*

The Oregon Progress Board reports each biennium to the legislature on the progress the state has made toward a set of 90 benchmarks, or measures, of economic, social, and environmental health. There are a number of education benchmarks. The Progress Board found progress had been made in most categories in 2001-03. It did not find progress being made in the area of Labor Force Skills Training, and found progress for Eighth Grade Skill Levels had stagnated since 2000.<sup>7</sup>

### *Funding Levels of Successful Schools*

Another measurement of determining adequate funding is to examine the funding levels of “successful” schools. The table below shows a random list of elementary schools that were successful in getting their third graders to read at state benchmark levels, and the approximate amount of funding each school received. It should be noted that school and student characteristics vary and comparisons should not be made without adequate information.

<sup>2</sup> ORS 327.506

<sup>3</sup> ORS 327.506(2)

<sup>4</sup> Quality Education Commission figures refer to state General Fund support only.

<sup>5</sup> "ADMw" refers to average daily membership, weighted; the student count plus special student weightings (ORS 327.013).

<sup>6</sup> Quality Education Commission. *Quality Education Model 2000*, p. 9.

<sup>7</sup> Education benchmarks: Ready to Learn, Third Grade Skill Levels, Eight Grade Skill Levels, Certificate of Initial Mastery, High School Dropout Rate, High School Completion, Some College Completion, Adult Literacy, Computer/Internet Usage, Labor Force Skills Training. Is Oregon Making Progress? The 2003 Benchmark Performance Report.

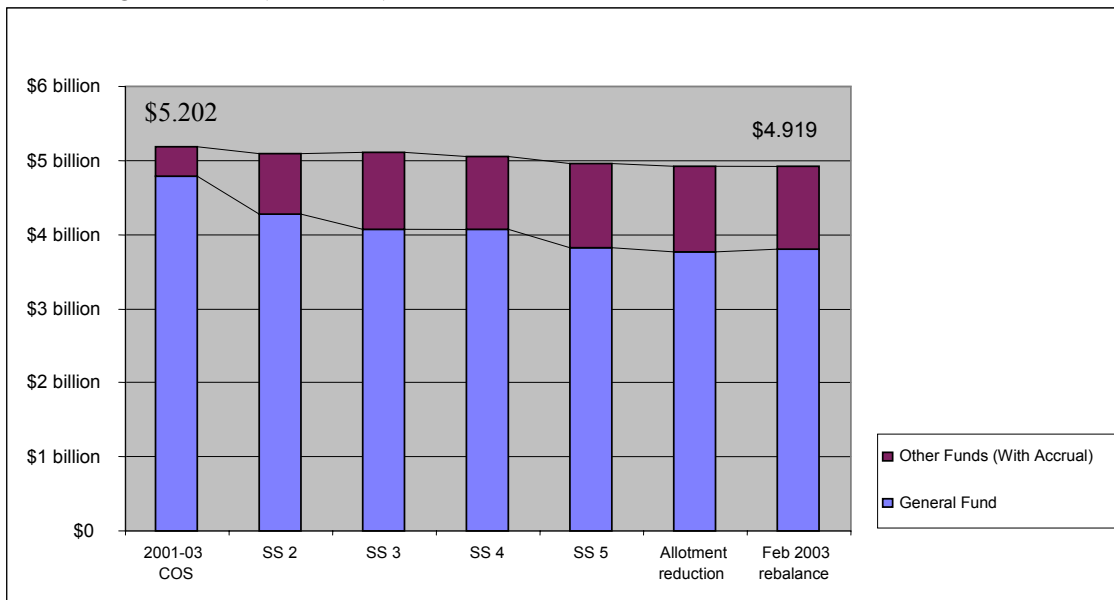
<http://www.econ.state.or.us/opb/2003report/Report/2003BPR.pdf>

SCHOOL	% of 3 <sup>rd</sup> Graders Reading At Benchmark	2001-02 Spending Per Student, General Fund <sup>8</sup>
Briscoe Elementary Ashland	95%	\$6,194
Alameda Elementary Portland	94%	\$6,189
Cooper Mountain Elementary Beaverton	95%	\$5,859
Edison Elementary School Eugene	98%	\$6,268
West Hills Elementary School Pendleton	>95%	\$6,342
Oak Elementary Albany	93%	\$5,967
Ocean Crest Elementary Bandon	94%	\$5,117

**2001-03 K-12 Budget:**

*2001-03 Close of Session Budget*

The close-of-session legislatively adopted budget for the State School Fund and other K-12 grants totaled \$5.202 billion,<sup>9</sup> an increase of approximately 8.1 percent over the 1999-01 level of \$4.811 billion.<sup>10</sup> By the close of the 2002 legislative special sessions and the failure of Ballot Measure 28, the K-12 budget was reduced to \$4.919<sup>11</sup> (\$4.69 without accrual<sup>12</sup>). While General Funds decreased, the legislature used other funds to reduce the impact of the funding reduction (*see below*).



<sup>8</sup> Oregon Database Initiative. School Profile Report. 2001-02. “General Fund” refers to a school district’s General Fund, constituting primarily of local property taxes plus the distribution it gets from the state through the formula.

<sup>9</sup> \$5.202 billion includes state timber taxes of \$23.7 million.

<sup>10</sup> \$4.811 billion includes \$50 million in SB 622 proceeds; \$127 million in lottery bond proceeds; and \$50 million in Common School Fund monies.

<sup>11</sup> Includes \$17.7 million of Common School Fund monies (HB 4055).

<sup>12</sup> “Accrual” allows districts to include revenues in their 2002-03 financial statements that won’t be available until July 2003.

In addition, the Legislative Fiscal Office anticipates an \$8 million loss due to a MUPL<sup>13</sup> shortfall, and local revenues will be about \$31 million lower than close-of-session estimates.<sup>14</sup>

### Findings

It is the determination of the Ballot Measure 1 Committee that the level of K-12 funding is insufficient to meet Quality Education Commission recommended levels. The Ballot Measure 1 Committee finds there were significant stresses on the K-12 system due to declining revenues and increasing costs of service delivery. Trying to maintain the prior level of service given those constraints was a tremendous challenge for schools and one that will likely continue should funding levels continue to decline and costs increase.

In its obligation to fully fund K-12 education to achieve educational outcomes prescribed by law, the Legislative Assembly implicitly confronts a fundamental decision about whether and how to generate sufficient revenue to meet this goal. By setting the appropriation level at \$5.2 billion in 2001, a decision was made not to seek additional revenue to fully fund K-12 at the QEM level of \$6 billion.

#### *Ballot Measure 5 – Equalization – School Distribution Formula*

School districts are experiencing the results of state policy put into effect in 1991. Passage of Ballot Measure 5 limited the amount of local property taxes collected and used for schools, shifting the bulk of funding from the local property tax to the state's General Fund. In response, the state created a school fund distribution formula and began the process of equalizing the amount of funding school districts received per student, an amount that had been disparate between districts. In the equalization process, highly-funded school districts' funding was frozen then reduced, while lower-spending districts' funding was increased. In addition, Ballot Measure 5 capped districts' ability to raise operating revenue locally. While education organizations are reluctant to modify the school funding formula, it is generally recognized to be a blunt instrument when dealing with particular situations such as special education funding, districts with declining enrollments, or districts with rapidly increasing enrollment.

### Declining Revenue Findings

#### *Falling State Revenue – National Economic Decline*

Personal income tax collections were reduced by falling wages and losses from the stock market while declining profits sharply reduced corporate income tax payments. The decline in tax collection due to the weakened economy resulted in a budget that could not sustain state programs at their current budget levels. State General Fund resources for 2001-03 are now \$2.127 billion, 18.5% below the close of 2001 session forecast. The 2001-03 General Fund resources are also estimated to be \$1.119 billion, 10.7 % below 1999-2001 General Fund resources. Although revenue growth will pick up with economic recovery, revenue from capital gains and corporate profits associated with the late 1990's financial bubble is unlikely to return.

While the overall General Fund was reduced 18.5%, the State School Fund fell from \$5.202 billion to \$4.901 billion, a reduction of 5.79%.

#### *Failure of Ballot Measure 28*

The Fifth 2002 Special Session of the Oregon Legislature referred to voters the option of increasing personal and corporate income tax rates for three years. The Legislative Revenue Office estimated that passage of the measure would have raised \$313 million in 2001-03 and \$412 million in 2003-05. It would have cost the average taxpayer \$114 a year in additional taxes.<sup>15</sup> The measure failed statewide (575,846 voting yes, 676,312 voting no), although it passed in five counties: Benton, Gilliam, Lane, Multnomah, and Polk.<sup>16</sup> Had Ballot Measure 28 been enacted, an

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<sup>13</sup> Medicaid Upper Payment Limit

<sup>14</sup> The \$31 million does not include additional Common School Fund distributions of \$17.7 million provided by HB 4055, Third 2002 Special Legislative Session.

<sup>15</sup> Secretary of State. *Ballot Measure 28 Legislative Argument In Support*, January 28 Oregon Voter's Pamphlet.

<sup>16</sup> <http://www.sos.state.or.us/elections/jan282003/s03abstract.pdf>

additional \$95 million would have been available for schools in 2002-03, or an additional 4.2%,<sup>17</sup> and Legislative Fiscal Office estimates a similar amount would have been available for 2003-04. The failure of public support for Ballot Measure 28 may have the effect of discouraging the Governor and legislature from seeking a solution to funding shortfalls through a tax increase.

*Reduction in Local Property Taxes Collected*

In addition to state dollars, local property taxes are a significant source of school funding and those collections are lower than expected. At this time, it is expected that local property tax collections will be \$31 million short of session estimates.

***Increased Costs Findings***

*Special Education*

The school distribution formula accounts for special needs students by double-weighting them. School districts report that this weight can still fall short of actual costs. When the federal Individuals with Disabilities Act (IDEA) was enacted by the U.S. Congress, it was with the intention that the federal government would fund 40 percent of the Act's costs. This level of funding has never been realized and was 14% in 2000-01, and 15% in 2001-02.<sup>18</sup> Because the IDEA mandates a level of service for these students, funding is often shifted from the general education program to cover special education costs.

*PERS – Insurance – Utilities*

Because school payroll costs account for approximately 80% of district spending, increased Public Employees Retirement System (PERS) costs significantly impact a school's budget; 40% of the PERS is made up of school employees. School districts, as public employers, are facing a PERS unfunded actuarial liability (UAL). The UAL is the difference between what PERS can generate based on expected earnings and what it needs to pay current and future estimated pensions. The gap is currently estimated to be approximately \$16.4 billion for the system, of which \$6.56 billion is school district shortfall. School district employers currently pay 12.73% of covered salary as employers and will have to pay 18.58% beginning July 1, 2003. About 65% of districts also pay ("pick up") the 6% employee contribution to PERS. Those employers that pay the employee's 6% will have a rate of approximately 24.58% beginning July 1, 2003; nearly 25 cents of each payroll dollar paid will be for PERS costs. This rate may be lowered depending on legislation enacted by the 2003 Legislature and subsequent court decisions.

<b>Historic PERS Employer Rates</b>	
1973	7.5%
1976	7.60%
1978	9.15%
1979	10.45%
1980	11.75%
1981	11.67%
1983	12.17%
1984	10.30%
1988	11.80%
1992	10.86%
1993	9.88%
1997	9.93%
1999	12.25%
2001	12.73%
2003	18.58%

According to a March 2001 survey<sup>19</sup> done by the Confederation of Oregon School Administrators (COSA), school districts expect the rates charged by their health care providers to increase. On average, medical health insurance is expected to rise 16.6%; dental to rise 13.9%, and vision care insurance to increase 12.4%. Implementation of these increases will vary among districts because of current employee contracts and future contract negotiations. Many districts are capping premium costs as a strategy for controlling rising premium costs.

COSA also surveyed member districts in April 2002 on utility bill increases. Electricity is expected to increase nearly 30%, natural gas 30.5%, heating oil 27.3%, water and sewer 16.9%, and garbage 9.8%. These numbers are estimates, however, and may not be as high as estimated, or may actually drop.

<sup>17</sup> The increase would have been 4.2% of the \$2.25 billion total in 2002-03; or 1.8% for the biennia.

<sup>18</sup> Legislative Fiscal Office figures.

<sup>19</sup> 72 school districts and 8 ESDs responded.

**Impact of Insufficiency**

Cost increases in K-12 outstripped the funding available. Major cost increases were PERS and health care, causing significant budget cuts to occur at district levels to accommodate the legislative funding level. Because funding cuts occurred late in the biennium, districts had limited options to find areas to save. Most districts chose to use available reserve revenues, shorten the instructional year, or both.

*Impact on Student Performance*

Test scores held steady for the most part, with declines in 8th grade writing, and 5th, 8th, and 10th grade math problem solving.<sup>20</sup> Test scores for the 2002-03 school year, not available at this time, will also reflect the impact of the 2001-03 budget.

**Recent Assessment Results - Percentage Meeting Standards**

Year/test	99-00	2000-01	2001-02
3rd grade reading	82%	84%	85%
3rd grade math	75%	75%	77%
5th grade reading	73%	77%	79%
5th grade math	69%	73%	75%
5th grade writing	65%	64%	69%
5th grade math prob. solving	64%	76%	62%
8th grade reading	64%	62%	64%
8th grade math	56%	55%	55%
8th grade writing	66%	68%	67%
8th grade prob. solving	55%	58%	51%
10th grade reading	51%	52%	53%
10th grade math	40%	42%	45%
10th grade writing	42%	79%	79%
10th grade math prob. solving	36%	57%	50%

*Impact on Current/Best Practices*

The 2000 Quality Education Model does not identify "best practices" explicitly, but rather implicitly through its prototype components. These components are as follows: adequate staffing; added instructional time and activities for students having trouble meeting standards; curriculum development and technology support; on-site instructional improvement; professional development for teachers and administrators; assistance with CIM record keeping; adequate classroom supplies; and adequate funds for building maintenance.<sup>21</sup>

Schools have responded to the 2001-03 budget cuts in a number of ways, but because personnel costs make up 80% of a school's budget, significant savings can only be seen in staff reductions and staff salary and benefit adjustments or a shortened school year. Data is not available on personnel cost reductions, but a survey by the Oregon School Boards Association found that 90 school districts planned to shorten the school year to save money, the bulk of which consists of lost wages to school personnel, including teachers.<sup>22</sup>

**LEGISLATIVE FINDINGS CONCERNING POSTSECONDARY EDUCATION**

The Legislature finds community colleges and higher education are critical to the state, but while these are components of the state's system of public education, they do not have the same type of statutory goals identified for K-12 schools, and thus, are exempt from the reporting requirements of Ballot Measure 1.

<sup>20</sup> Statewide assessments for 2001-02 were given in the winter and spring of 2002; on-line tests are given October-May. The largest budget cuts did not occur until 2003.

<sup>21</sup> Quality Education Commission. *Quality Education Model 2000*, p. 5

<sup>22</sup> OSBA. Cutting School Days Helps Budget Crunch in 90 Districts. April 30, 2003.

<http://www.osba.org/hotopics/funding/2003/030429.htm>