



HOUSE BILL 3427

STUDENT SUCCESS ACT

ISSUE BRIEF

House Bill 3427 establishes the Fund for Student Success (FSS) and allocates moneys within that fund. As a revenue stream for the FSS, the measure reduces certain personal income tax rates and creates a modified corporate activity tax (MCAT). The net new revenue generated by the MCAT will be allocated to School District Investment Grants, early learning, and certain statewide education initiatives after a one-time distribution to the State School Fund for the 2019-2021 biennium.

FUND FOR STUDENT SUCCESS

The measure establishes the Fund for Student Success (FSS), a new fund outside the General Fund. The fund is divided into three accounts: Student Investment Account (SIA), Early Learning Account (ELA), and Statewide Education Initiatives Account (SEIA).

After a one-time distribution to the State School Fund for the 2019-2021 biennium and additional funding for high-cost disability grants, 50 percent of remaining revenue will be allocated to the SIA, at least 20 percent to early learning, and up to 30 percent to statewide initiatives.

Student Investment Account. The moneys allocated to the SIA must be distributed as noncompetitive grants to all school districts in the state, and directly to charter schools whose student populations exceed 35 percent historically underserved students and whose population of historically underserved students is greater than that of the surrounding district. Charter schools that do not meet that threshold are treated as part of their sponsoring district. These funds are allocated based on weighted average daily membership, with the weight for poverty doubled to 0.5. The measure establishes minimum grants for the state's smallest school districts. Districts and eligible charter schools must submit a plan for use of the funds, for which there are four allowable uses: increased learning time, reduced class sizes and caseloads, well-rounded educational opportunities, and student health and safety.

District leaders are required to present the plan to the local school board both orally and in writing, and the school board must allow opportunity for public comment before the plan can be officially adopted and submitted to the Oregon Department of Education (ODE).

Districts and eligible charter schools are responsible for meeting growth targets in four areas: graduation and completion rates, the percentage of students finishing ninth grade with six or more credits toward graduation, the percentage of students completing third grade reading proficiently, and the percentage of students that misses less than 10 percent of school days. In each of these areas, school districts and eligible charter schools are responsible for lifting overall rates as well as decreasing gaps for historically underserved students. Each year, district leadership must present the district's progress to the local school board both orally and in writing, and the school board must allow opportunity for public comment.

School districts that do not meet their annual growth targets in these areas receive coaching assistance from high-performing contractors hired by ODE.

ODE must identify and select school districts with a long track record of achievement gaps to participate in an intensive program. Student Success Teams, contracted by ODE, will study those districts' needs and operations, and provide a set of recommended changes. Districts that agree to enter the program receive extra funding and must implement the team's recommendations relating to expenditures of the SIA grants and the extra funding. These districts must also issue a report to all district employees and enrolled families outlining the team's recommendations and the district's implementation plans.

Early Learning Account. The moneys allocated to the ELA are allocated to programs including: early intervention and early childhood special education, relief nurseries, creation of the Early Childhood Equity Fund to provide culturally specific early learning programs, the creation of new public preschool slots or the expansion from half- to full-day of existing public preschool slots, professional development for early childhood educators, and programs for children ages 0 to 3 such as Early Head Start.

Statewide Education Initiatives Account. The moneys allocated to the SEIA are earmarked for specific programs, including the High School Graduation and College and Career Readiness Act; expanding school breakfast and lunch programs; education service districts, creation of a reengagement pilot program for students who have dropped out of high school; establishing and maintaining the Statewide School Safety and Prevention System recommended by the School Safety Task Force; statewide equity initiatives such as the African American/Black Students Success Plan, the Latino Students Success Plan, and the American Indian/Alaska Native Students Success Plan; summer learning; planning for alignment of the state's education accountability systems; and the Student Success Teams.

The measure also instructs state agencies to make recommendations in 2020 regarding professional development and diversity in Oregon's educator workforce.

PERSONAL INCOME TAX RATE REDUCTIONS

The measure reduces Oregon's three lowest personal income tax rates by a quarter percent each. The lowest rate will be reduced to 4.75 percent from 5 percent, the next rate will be reduced to 6.75 percent from 7 percent, and the third will be reduced to 8.75 percent from 9 percent. The top rate, 9.9 percent, will remain the same.

MODIFIED CORPORATE ACTIVITY TAX

The measure establishes a modified corporate activity tax (MCAT). Businesses with gross receipts in Oregon of \$1 million or more will be subject to a tax of \$250 plus the product of the taxable business receipts multiplied by 0.57 percent. Businesses may subtract 35 percent of either the amount of cost inputs paid to other businesses or the taxpayer's labor costs, whichever is greater.

The measure contains 43 exceptions to the definition of business receipts. Many excise and sales taxes are excluded, as are sales to agricultural cooperatives.