

# **Comprehensive Analysis of K-12 Education Finance in Oregon**

Prepared for

**Oregon School Boards Association**

by

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November 2002

# ACKNOWLEDGEMENTS

John Tapogna, Eric Fruits, Anne Fifield, and Ted Helvoigt of ECONorthwest authored this report. It benefited from the expert research assistance of Helen Rosenau, Alec Josephson, Charisa Flaherty, James Choe, Carrie Stubenberg, Christina Decker, and Allison Suter. Randall Pozdena, Carl Batten, Christopher Dudley, Margaret Peterson, John Marshall, Jim Scherzinger, and Frank McNamara provided useful comments and corrections. A special thanks is extended to Brian Reeder of the Oregon Department of Education who reviewed drafts of the report and provided much of the underlying data.

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## INDIVIDUAL DISTRICT CASE STUDIES (1-16)

## PURPOSE OF THE STUDY

In April 2002, the National Center for Education Statistics (NCES) released an annual report comparing spending per student in Oregon with that of other states. The study reported that Oregon remains above average in the amount of tax money going to public K-12 institutions. Specifically, the report concluded that Oregon spent \$5,195 in 1990, about \$293 above the national average. In 2001, Oregon spent \$7,357 per student, which also was \$278 above average. In short, a cursory review of these statistics suggested that Oregon's spending on the public K-12 system had roughly kept pace with national trends during the 1990s.

The NCES's findings caused some confusion because the state's funding process in 2001 generates only about \$5,000 per student—as calculated using the state's funding formula definition of resources and students. Only the closest observers and analysts understood the difference between the NCES calculation and the one more commonly used by the Legislature. Moreover, the NCES findings were in contrast with the messages sent by school officials across the state that funding was insufficient to cover current services.

To clarify the education funding discussion, the Oregon School Boards Association hired ECONorthwest to review public K-12 spending in Oregon since the 1990 passage of Measure 5, Oregon's property tax limitation measure, and the beginning of the funding equalization process. OSBA specifically requested that the study:

Describe the various methods used to calculate spending per student in Oregon and review statewide trends since 1990;

Compare Oregon's spending per student with that of other states, and particularly neighboring states;

Assemble and report quantitative and qualitative data on the fiscal and service positions of 16 individual districts.

## FINDINGS

We begin this section with an overall finding then turn to specific findings from each part of the study. Oregon's primary and secondary public schools encountered a very complex set of changes during the 1990s that render simple *statewide* spending figures, like those reported by the NCES, as an incomplete indicator of the system's fiscal position and overall health. Two factors in particular have important implications for the K-12 funding debate.

First, the *equalization process*, which is now complete and provides a comparable level of resources to students across the state. By its very nature, the equalization process created winners and losers over the decade. Districts with historically weak local property tax bases benefited from the process, saw spending per student increase above the rate of inflation, and added programs and services they had never offered previously.

By contrast, historically well-funded districts saw revenue slow and eliminated, or scaled back a number of programs over the decade.

While districts were adjusting to the new funding process, they were simultaneously expanding spending for *special education* programs, which we define broadly to encompass programs for students with physical or mental disabilities, non-English speakers, and students at risk of dropping out of school. The growth, which has been well documented in the news media, was driven by long standing federal mandates to serve students with disabilities and Oregon's changing demographic profile. The rapid growth in special education spending meant that, even in districts in which overall spending per student exceeded inflation, spending per student on regular instruction often did not. Consequently, a number of districts struggled to maintain regular programs that parents and students expected in their local schools, including music, shop classes, and outdoor school.

In short, the NCES analysis, while accurate in its calculation, fails to capture the complexity of Oregon's K-12 finance during the 1990s. *Statewide* trends in spending per student fail to capture the experience of any particular district during a period of radical changes in the financing method. Moreover, by focusing the analysis on *overall* spending, the analysis loses the complex tradeoffs between spending on regular and special education.

With this general finding in mind, we now turn to the specific findings for each aspect of the study.

**Key findings in our investigation of trends in statewide spending per student are:**

**Spending per student can be defined in a number of ways and most are valid.** Education analysts have a number of different ways to define the level of school funding and the number of students served. Common spending measures include the monies made available to the districts through the State School Fund; current expenditures, which capture most day-to-day operational costs by schools; and total expenditures, which additionally capture capital outlays and interest payments. Finally, some analysts mistakenly report Oregon "all funds" expenditures, which include end of year balances and double count payments for district's internal services. Common measures of students are fall enrollment, average daily membership among district residents, and average daily attendance. In addition, the State of Oregon has created a special *weighted* measure of average daily membership that attempts to adjust for student categories that are extraordinarily costly to serve.

**Estimates of spending per student vary widely depending on the definitions used.** For the 2001-2002 school year, estimates of spending per student ranged from a low of \$5,081 to a high of \$10,037. The lower figure is commonly used by the Oregon State Legislature and represents the amount of state and local resources distributed through the school equalization formula (commonly referred to as "formula operating revenue") divided by a *weighted* number of average daily students (i.e., Formula Operating Revenue per ADMw). These funds do not include all of the resources made available to the K-12 system and omits state and federal grants, state-level administration, child nutrition programs, capital outlays, and interest

payments. The higher figure represents total expenditures divided by average daily attendance. Total expenditures capture all system spending regardless of its source. Average daily attendance produces the lowest of the student measures, and therefore generates a high per student spending value, because it captures only those students who actually attend school each day.

**Determining whether spending per student kept pace with inflation during the 1990s is not straightforward.** Growth in spending per student varies considerably depending on the measure used. For example, the formula operating revenue per weighted average daily student, increased only 20.6 percent during 1991-2001, which lagged behind consumer price inflation measured either regionally (36.4 percent) or nationally (30.0 percent). The slow growth in the measure is determined, in large part by increases in the *weighted* student count, which reflects the fact that Oregon schools are serving more students in need of special education. By contrast, current expenditures per fall enrollee, a statistic commonly compared across states, increased by 46.6 percent, which exceeded inflation as measured by the consumer price indices. However, that measure failed to keep pace with two other relevant inflationary measures: average wages per job and private elementary and high school tuition and fees. Oregon's average wage per job increased 54.4 percent during the 1990s while private elementary and high school tuition and fees, measured nationally, increased 88.4 percent.

**Throughout the state, growth in spending on special education significantly outpaced growth in spending on regular programs.** During 1992-2000, spending per student (unweighted average daily membership) on regular instruction grew at an annual average rate of 3.0 percent, which is slightly above the national rate of inflation and identical to the regional rate of inflation for that period. However, spending per student on special education programs (measured across all such programs) grew at an average annual rate of 14.3 percent. For example, in 1992, Oregon K-12 schools spent an average of \$448 per student (measured across all students regardless of whether they received such services) on special education programs. By 2000, the system spent \$1,301 per student.

#### **Key findings in our investigation of cross state comparisons are:**

**Oregon's national ranking on spending per student varies based on the student measure used.** For the 2000-2001 school year, Oregon's spending per student ranks between 12<sup>th</sup> and 21<sup>st</sup> nationally in spending per student depending on the definition of spending and students used. For example, Oregon's current expenditures per *average daily attendee*<sup>1</sup> equals \$8,593 and places Oregon 12<sup>th</sup> in the nation. By contrast, current expenditures per *fall enrollee* (Education Week) totals \$7,614 and puts Oregon 21<sup>st</sup>. The major difference between the two measures is the student measure. Oregon's average daily attendance as a percentage of fall enrollees is relatively low<sup>2</sup>.

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<sup>1</sup> Current expenditures as measured by the National Education Association (NEA).

<sup>2</sup> While the ratio of average daily attendance to fall enrollment varies considerably across states, ECONorthwest uncovered no explanation in literature for the differences. One official with the National Center for Education Statistics indicated that methods for calculating fall enrollment are more consistent across states than are methods of calculating average daily attendance. The official suggested a preference for using fall enrollment rather than ADA when making cross-state comparisons of per student spending.

Consequently, measures of per-student expenditures based on average daily attendance will be much larger for Oregon than for other states, causing Oregon's ranking to rise.

**Oregon's K-12 spending as a percent of total personal income fell during the 1990s but still exceeds the U.S. average.** In the 1990-1991 school year, Oregonians spent 4.6 percent of their total personal incomes on current K-12 expenditures—compared to U.S. average of 4.1 percent. During the 1990s, Oregon's K-12 spending did not keep pace with personal income growth and by 2000-2001, K-12 spending equaled 4.2 percent of personal income—still higher than the U.S. average (3.9 percent). In 2000-2001, California K-12 spending equaled 3.5 percent of personal income. Washington and Idaho spent 3.5 percent and 4.1 percent of personal income on K-12, respectively.

**Spending on instruction per student is comparable to the U.S. average but higher than in neighboring states.** About one-half of the difference between Oregon and other western states per-student current expenditures is explained by Oregon's higher per student expenditures on instruction. Oregon's per-student spending on instruction is \$23 lower than the national average, but \$441 greater than Washington's, \$297 greater than California's, and \$964 greater than Idaho's.

**Spending on benefits per student exceeds U.S. average and averages of neighboring states; salaries per student on par.** Oregon spends \$346 less per student on salaries than the U.S. average, but lower salaries are more than offset by higher spending per student on benefits (+\$448). Oregon's salaries per student are roughly comparable to California's and Washington's but considerably higher than Idaho's. As with the comparison to the national average, Oregon's benefit expenditures per student are well in excess of those in neighboring states—\$541 per student above California's, \$461 above Washington's, and \$591 above Idaho's.

**Holding key economic and demographic factors constant, Oregon spends more on K-12 education per student than neighboring states; Oregon's higher per student spending is associated with compensation levels and non-teacher staff-to-teacher ratios.** ECONorthwest's predictive model of education spending estimates that, given Oregon's economic and demographic characteristics, the state would have spent \$6,687 per student for 1999-2000 compared to actual spending of \$7,149 per student—a difference of \$462. We successfully explain the \$462 difference between predicted and actual spending by identifying key differences in Oregon's programmatic characteristics. Specifically, Oregon's relatively higher spending per student is driven, in large part, by above average compensation packages. In 1999-2000, the Oregon's average *salary and benefits* per employee (measured across all K-12 employees) ranked sixth in the nation. If one considers only the average *benefits* per employee, Oregon ranks second—behind Rhode Island. On the other hand, Oregon saves, relative to the average state, with higher student-teacher ratios and a smaller proportion of long-time teachers.

### Key findings from the 16 district case studies include<sup>3</sup>:

**Current expenditures per student in districts with historically weak property tax bases outpaced regional inflation during 1991-2001.**

Districts with the least local resources per student in 1991 saw the greatest growth in current expenditures over the decade. Districts like Pendleton, Coos Bay, Philomath, John Day, and South Umpqua all saw spending per student increase by more than 50 percent during 1991-2001.

**Current expenditures per student in districts with historically strong local revenue bases showed mixed growth.** Lincoln County, Beaverton, and Pleasant Hill are examples of relatively well-funded districts before Measure 5 that experienced subpar growth during the 1990s. Current expenditures in these districts failed to keep pace with inflation. Neah-Kah-Nie stands out as a district with substantial local resources in 1991, yet continued to have strong growth through 2001. Neah-Kah-Nie continues to have substantial local resources (through local timber-related revenues), that exceed state support levels.

**Growth rates in spending per student can be deceiving in declining enrollment districts.** In small districts with declining enrollment, the spending per student figure provides an incomplete picture of the district's health. Both John Day and Burns have recently seen declines in average daily membership, putting upward pressure on the spending per student figure and giving the impression that they are in solid fiscal condition. However, a small district with declining enrollment can be eliminating staff at the same time spending per student is increasing—they simply are not eliminating staff at the same rate as the student losses. With a limited number of faculty, staff reductions often imply the elimination of course offerings in small schools. For example, Burns recently eliminated the drafting and wood shop programs at the local high school, but simultaneously, spending per student increased.

**Spending per student on regular instruction lagged behind regional inflation in 10 of 16 districts.** While current expenditures per student generally outpaced inflation, as measured by the regional CPI, a review of spending per student on regular education instruction shows that regular programs have declined.

**Music, languages, sports, and outdoor-school programs suffered in districts with slow-growing regular education budgets.** Districts with slow-growing regular education programs typically turned to music, language, sports, shop classes, and outdoor school programs first when looking for programs to scale back or eliminate.

**Spending per student on special education instruction increased two to three-fold in most districts.** We've measured special education broadly here, to include alternative education, English-language learners (ELL), and

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<sup>3</sup> The 16 districts are Beaverton, Burns, Coos Bay, David Douglas, John Day, Lakeview, Lincoln County, Neah-Kah-Nie, Oregon City, Pendleton, Philomath, Phoenix-Talent, Pleasant Hill, Redmond, Salem-Keizer, and South Umpqua.

programs for developmentally and physically disabled students. This category grew more rapidly than other programs for many reasons. One, there is a federal mandate that requires public school districts to serve children with disabilities. Parents of disabled children have become increasingly aware of the services the districts must provide, and are organized to ensure their children receive proper care. Two, it is likely that medical advances have resulted in some disabled children surviving who would not have survived 10-15 years ago. Three, many districts have seen an increase in their ELL programs, and some districts must accommodate multiple languages.

**Salaries and benefits, as a share of total spending, typically held constant.** Across the state, salary and benefits compose 80 percent to 85 percent a school district's of spending for on-going operations and maintenance. In most districts, spending per student on salaries and benefits grew at the same rate as current expenditures per student and composed the same share of spending at the end of the decade as they did in the beginning.

**Benefits growth kept in check by cap on health insurance.** Because many districts have capped health insurance benefits, staff must now pay a portion of their own health insurance costs.

**Unfunded retirement costs are not captured in existing expenditure data.** The districts we interviewed reported that retirement payments have increased over the last few years, but not extremely so. However, across the state, district officials expect PERS payments to grow substantially in the next budget year.