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Oregon K-12 Education Spending: Stable After Measure 5

by Martin L. Buchanan

Executive Summary

In November 1990, Oregon voters passed Measure 5, which reduced property tax rates over several years. Since voters passed a second property tax limitation (Measure 47) in November 1996, many citizens and public officials are especially concerned about providing adequate school funding. After all, haven't school budgets already been slashed because of Measure 5? In fact, real statewide spending per student has grown slightly since Measure 5. The data are complicated but worth paying attention to; K-12 education is the biggest single program funded by state and local government, costing about $3.5 billion each year.[1] Here are the main conclusions:

- There is genuine restraint in most areas of school spending, including instruction, administration and central services, food service, operations and maintenance, and student transportation.
- The fastest growing spending categories are facilities acquisition and construction and debt service[2] (which is tied to previous building costs), attributed to increasing enrollment in the system.
- Per student spending on special education has increased significantly and is worth investigating.
- Reasonable reforms are possible to reduce or restrain school spending while maintaining or improving school quality.

In December 1996, a national commission determined that consumer price index numbers, relied on by economists and policy analysts, consistently overstate consumer price increases for a variety of technical reasons.[3] The author used this report to produce the best possible numbers on real per student spending over a six-year period (Table 1). Because the changes measured in school spending are so small, the consumer price index used significantly affects reported results. To get another view of the data, this report also shows real per student spending using an uncorrected consumer price index series (Table 2). Consumer price data for the Portland, Oregon/Vancouver, Washington metro area is used, as regional prices have increased somewhat faster than national prices.[4]

Because statewide per student spending is stable or slightly increasing, cuts in specific districts have other causes. One such cause is the ongoing equalization of funding of Oregon school districts, which can reduce funds for districts previously funded at levels above the statewide average.

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Table 1

Spending Per ADM Student, Total Spending by Category (Using corrected consumer price index) in Jan. 1997 dollars.

SPENDING BY CATEGORY[5]	89-90	90-91	91-92	92-93	93-94	94-95	% Change
INSTRUCTION	3,283	3,301	3,302	3,384	3,263	3,304	0.64
ADMIN. & CENTRAL SERVICES	1,050	991	996	1,041	979	988	-5.90
SPECIAL EDUCATION	518	480	543	628	633	650	25.48
SOCIAL & MEDICAL SERVICES	282	289	285	301	308	304	7.80
FOOD SERVICE	201	200	204	211	208	212	5.47
OPERATION & MAINTENANCE	707	694	662	654	650	655	-7.36
STUDENT TRANSPORTATION	254	240	241	271	271	267	5.12
FACILITY ACQUIS. & CONSTRUCTION	262	282	284	335	383	486	85.50
DEBT SERVICE (INTEREST-ONLY)	104	107	107	114	136	148	42.31
TOTAL SPENDING PER STUDENT	6,661	6,584	6,624	6,939	6,831	7,014	5.30

From the 1989-90 school year to the 1994-95 school year (showing percentage change over time and range of dollar values in the final year, from both Table 1 and Table 2):

> **"...statewide per student spending is stable or slightly increasing..."**

- Instructional spending is stable (+0.64 percent to -5.63 percent), ending in the range of $3,304 to $3,383 per student.
- Administration and central services spending declined (-5.90 percent to –11.77 percent), to a range of $988 to $1,012 per student.
- Special education spending (per regular student) increased significantly (17.67 percent to 25.48 percent) to a range of $650 to $666 per student.
- Social and medical services spending increased somewhat (0.97 percent to 7.80 percent) to a range of $304 to $311 per student.
- Food service spending was stable (-0.91 percent to 5.47 percent), ending in a range of $212 to $217 per student.
- Operation and maintenance spending declined (-13.08 percent to –7.36 percent), to a range of $655 to $671 per student.
- Student transportation spending was stable (-1.44 percent to 5.12 percent), ending in a range of $267 to $273 per student.
- Facility acquisition and construction spending increased dramatically (74.13 percent to 85.50 percent), to a range of $486 to $498 per student.
- Spending on interest to service debt also increased dramatically (33.33 percent to 42.31 percent), to a range of $148 to $152 per student.

Total spending was stable (-1.25 percent to 5.30 percent), ending in a range of $7,014 to $7,183 per student.

The biggest spending increases are in facility acqui-

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Table 2

Spending Per ADM Student, Total Spending by Category (Using uncorrected consumer price index) in Jan. 1997 dollars.

SPENDING BY CATEGORY	89-90	90-91	91-92	92-93	93-94	94-95	% Change
INSTRUCTION	3,585	3,558	3,517	3,557	3,384	3,383	-5.63
ADMIN. & CENTRAL SERVICES	1,147	1,068	1,061	1,094	1,015	1,012	-11.77
SPECIAL EDUCATION	566	517	578	660	656	666	17.67
SOCIAL & MEDICAL SERVICES	308	312	304	316	319	311	0.97
FOOD SERVICE	219	216	217	222	216	217	-0.91
OPERATION & MAINTENANCE	772	748	705	687	674	671	-13.08
STUDENT TRANSPORTATION	277	259	257	285	281	273	-1.44
FACILITY ACQUIS. & CONSTRUCTION	286	304	302	352	397	498	74.13
DEBT SERVICE (INTEREST-ONLY)	114	115	114	120	141	152	33.33
TOTAL SPENDING PER STUDENT	7,274	7,097	7,055	7,293	7,083	7,183	-1.25

sition and construction and in debt service, which is also largely due to building costs. New school construction in the Portland area alone may cost $1.7 billion in the next 18 years.[6] Increasing population and enrollment are driving much of the new school construction. Political reforms that reduced enrollment (by diverting students into education alternatives) or that lowered construction costs (by repealing Oregon's prevailing wage law) could save hundreds of millions of dollars in construction and debt service costs in coming decades.

Special education costs continue to increase dramatically, as they had in previous decades. Eleven percent of students are in special education, but 80 percent of those students have mild speech, language, or learning disabilities.[7] The per student cost for these "special" students now exceeds $12,000 per student per year,[8] though most do not have serious disabilities.

Operation and maintenance, student transportation, and debt service (interest-only) can reasonably be considered fixed costs of $1,070 to $1,096 per student, leaving variable costs (sensitive to number of students) of $5,944 to $6,087 per student.

Understanding Public School Spending

Government publications and media reports commonly understate per student expenditures. For example, the *Oregon Report Card 1995-1996* states that school districts spent an average of $5,007 per student in the 1994-95 school year. Using the author's methods, school districts spent $6,399 (in that year's dollars) per ADM student that year.[9] Adding in spending in educational service districts (ESD's) and correcting for price changes produces this paper's range of $7,014 to $7,183 per ADM student that year (1/1/1997 dollars).

"...spending in the current school year is probably greater than $7,000 per ADM student."

Some news reports are even more misleading. *The Oregonian*'s editorial page published a table asserting that 1995 "weighted per-student spending in Oregon, adjusted for inflation" was $3,710,[10] with no indication of the base year or the methods used.

An accurate description of school spending should include current expenditures for capital construction and debt service—which are real and substantial costs to taxpayers, include expenditures at all levels of government,[11] and use average daily membership (ADM) as the most accurate indication of the number of students served.[12] Because actual, audited data is two years behind budgeted data, all we can say about spending in the current (1996-97) school year is that it is probably greater than $7,000 per ADM student.

Education analyst Myron Lieberman points out other unreported costs of public schools,[13] including state and federal administrative costs related to basic education and the costs of political governance—electing thousands of school board members and taking large shares of the legislature's and governor's time. A much larger unreported cost is due to funding public schools with taxes. Taxes have major administration costs, disincentive (lost production) costs, collection costs, and compliance costs. For example if collecting a dollar in taxes costs twenty cents, then the true economic cost of an Oregon public school education reaches $8,400 per student.[14]

When comparing school spending for different years, or estimating needed future budgets, adjustments for changes in the buying power of the dollar become important. The federal consumer price index (CPI, CPI-U) is the most widely used series for such adjustments. In December 1996, the Congressional Advisory Commission on the Consumer Price Index released its final report, indicating that the consumer price index has historically been overstated by 1.3 percent per year (through 1995) and is currently (1996 and later) overstated by 1.1 percent per year.[15] The fiscal implications are enormous. Over the next ten years, using an uncorrected consumer price index will increase Oregon school spending by $435 million per year above an accurate current services level.[16]

The money spent for one year of a student's education pays for only a small increment in his or her education. The cost of an entire Oregon basic education exceeds **$86,000** for one student.[17] The additional two to eight years of education needed for many jobs add further costs per person educated, some of which are also borne by taxpayers.

The Costs of Education Alternatives

In the 1994-95 school year, Oregon public school teachers, employed by a taxpayer-funded monopoly, received average salaries of $38,600 per year[18] and extremely generous taxpayer-funded pensions and benefits.[19] In that same year, the typical teacher earning market wages in an independent school earned $25,000 or less with a much less generous benefits package.[20] Including benefits, teacher pay in government schools is nearly double the level of market wages for equivalent jobs.

Average annual tuition in independent schools is an estimated $3,241,[21] less than half the cost of government schools. There are 38,764 reported students in Oregon independent schools.[22]

"Average annual tuition in independent schools is an estimated $3,241, less than half the cost of government schools."

The number of Oregon families homeschooling their children is increasing geometrically, with 10,764 registered homeschoolers as of February 1, 1996, nearly triple the number registered eight years before[23] and now equal to 2 percent of Oregon's student population. Not including the opportunity costs of parental labor, homeschooling families spend only a few hundred dollars per student per year, but their students score better than students in government schools.[24] Some homeschoolers are not registered and some students in independent schools are unreported, raising the total number of independent students to 50,000 or more.

The 50,000 Oregon students in independent education save Oregon taxpayers more than $350 million per year or $700 million per biennium, because taxpayers do not have to pay for government schooling for these children. As thanks for these savings, we presently insist that these families pay twice for education, once in taxes for schools they do not use and a second time in tuition and fees for their schooling of choice.

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Recommendations

The following five recommendations will improve Oregon K-12 education for consumers and taxpayers:

1. Legislate or otherwise adopt the use of a corrected consumer price index for creating "current services" budgets, for all state and local governments, including educational districts. This simple change produces savings that will reach hundreds of millions of dollars per year.

2. Provide a tax credit, increasing to $1,000 per student, against the education portion of income taxes and property taxes, for each student that gives up his or her entitlement to a free education in a government school. Such an incentive could move an additional 50,000 students out of expensive government schools into lower-cost alternatives, saving taxpayers $363 million per biennium when fully implemented.[25]

3. Legalize charter schools, entrepreneurial public schools, able to experiment in governance, teaching methods, student management, textbooks, curricula, labor relations, financial management, and almost every other aspect of education. Charter schools retain key responsibilities to provide a secular education and to open their doors to all kinds of students. The freedom of charter schools creates the potential for cost savings as well as quality improvements, though cost is not the primary motivator for such proposals.

4. Investigate, at the state and legislative levels, increasing costs for special education in Oregon public schools.

5. Repeal regulations that unnecessarily increase costs, such as Oregon's prevailing wage requirement for government construction projects, which discriminates against lower-cost (and often minority-owned) construction contractors.

"Such an incentive could move an additional 50,000 students out of expensive government schools into lower-cost alternatives, saving taxpayers $363 million per biennium when fully implemented."

About the Author

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Endnotes

1. For 1994-95, the last year covered by this study, ADM is 493,407.7 and per ADM student spending (author's computation, in 1/1/1997 dollars) is $7,014, for total spending that year of $3.46 billion.

2. This study only reports the interest portion of debt service spending and not the portion for repayment of principal. Because facilities acquisition and construction are funded by selling bonds, counting both that spending and repayment of debt principal would be double-counting.

3. "Toward a More Accurate Measure of the Cost of Living", Executive Summary, Congressional Advisory Commission on the Consumer Price Index, chaired by Michael J. Boskin.

4. One drawback of using the metro Portland (PDX) CPI data series rather than the national CPI series is that the metro CPI is published for six-month periods rather than monthly. The author used a linear average of the July-Dec PDX CPI (first year) and the Jan-June PDX CPI (second year) to get a 1 January CPI figure for each school year. The CPI-U for the first half of 1997 is estimated on a 3.2 percent annual price increase, the average PDX increase for the previous four years.

5. The ODE accounting codes used for the categories are as follows: instruction (1111, 1112, 1121, 1122, 1131, 1132, 1210, 1270, 1400, and 50 percent of 2200), administration and central services (2190, 50 percent of 2200, 2300, 2400, 2510, 2520, 2600), special education (1220, 1230, 1240, 1250, 1260, 1290), social services (2110, 2120, 2130, 2140, 2150), food services (2560), operation and maintenance (2540), student transportation (2550), facilities acquisition and construction (2530), and debt service (interest-only) (5000, only interest payments). Audited expenditure totals for "all funds" are used. Repayment of debt principal, community services, prekindergarten programs, adult/continuing education, ending balances, interfund transfers, internal service funds, and apportionments of funds are not counted in the spending totals. Original source: Oregon Department of Education. Walter Koscher of ODE provided indispensable data and review for this paper, one of several ODE employees who provided needed information.

6. "New Schools: Who Pays", The Oregonian, 9 December 1996.

7. Oregon Report Card 1995-1996, page 12. ODE is following

statute in its reporting practices (ORS 327.006). Changing their reported figures requires changing the statute.

8. The $650 per general student cost of special education is $5,707 per special education student, based on the Oregon Report Card's estimate that 11.39 percent of students are in special education. Add this to the $6,364 per student cost applicable to all students ($7,014 minus $650) equals $12,071 per special education student.

9. $3,157,552,000 (adds line items each rounded to a multiple of $1,000) divided by ADM of 493,407.7.

10. "Raise school-funding bar", editorial, 17 February 1997. The Oregonian. Ironically, an earlier Oregonian piece, "Where School Dollars Go" by Bill Graves and Steven Carter, in The Sunday Oregonian of 5 January 1997 estimates 1995-96 per student expenditures of $7,486, a figure which is too high and probably double-counts some funds (though embedded in an otherwise excellent article).

11. This study includes expenditures in school districts and educational service districts (ESD's). Expenditures in the Oregon Department of Education (ODE) related to basic education could also be included but are not; omitting these expenditures understates per student spending by about $40 per student.

12. A student is counted in average daily membership (ADM) except when they have missed ten consecutive school days. Thus ADM is a reasonable proxy for the number of students who attend school with any regularity. ADM does not include pre-kindergarten students (and this study does not count the cost of such programs). ADM for kindergarten students is adjusted by ODE by counting as only half of what it otherwise would, because kindergarten programs are typically half-day programs. The other widely reported figure is 1 October enrollment, which must be adjusted by subtracting the small number of enrollees in pre-kindergarten programs. Two other figures seen in discussions of schools are cumulative enrollment, the number of students enrolled at any time during the school year, and average daily attendance, indicating actual attendance in the schools.

13. Public Education: An Autopsy, Chapter 6: The Real Costs of Public Education.

14. $7,014 per student times 1.2 = $8,417 per student. Per Fred Thompson, Professor of Public Management and Policy, Willamette University, marginal costs of the income tax on labor range from 23 percent to 48 percent (with a greater cost for taxes on capital) and marginal costs of the property tax are much lower, probably less than 10 percent. Professor Thompson cited several sources, in an email message reviewing a draft of this paper.

15. "Toward a More Accurate Measure of the Cost of Living", Executive Summary, Congressional Advisory Commission on the Consumer Price Index, chaired by Michael J. Boskin.

16. Take the $3.763 billion estimated spending for Oregon K-12 spending (by The Oregonian) in the 1995-96 school year and increase that spending an extra 1.1 percent per year for ten years. The unneeded increment in spending, due solely to an inaccurate consumer price index, with no allowance for enrollment increases, is $435 million.

17. Take the estimated $7,014 per ADM student expenditures and multiply by 0.9473 (the ADM/enrollment ratio in 1994-95) to get $6,644 per enrolled student, times 13 years of K-12 education equals $86,372 per student, assuming no further education cost increases.

18. Statistical Abstract of the United States 1996, Table No. 254, page 167, original source: National Education Association.

19. Independent research by Richard Marshall, former vice president of U.S. Bank of Oregon, shows rapidly increasing annual benefit costs for public school teachers, exceeding $13,000 in the 1993-94 school year.

20. Statistical Abstract of the United States 1996, Table No. 268, page 174, indicates income of less than $23,415 for the average private school teacher nationwide in the 1993-94 school year.

21. Statistical Abstract of the United States 1996, Table No. 269, page 175, shows average independent school tuition nationally of $3,116 in the 1993-94 school year, or $3,241 in 1/1/1997 dollars.

22. Telephone conversation with Linda Runnells of the Oregon Department of Education.

23. Telephone conversation with Leon Fuhrman of the Oregon Department of Education.

24. "Solid Evidence to Support Home Schooling," 5 March 1997 by Michael P. Farris, Wall Street Journal. Home schoolers have average scores between the 80th and 87th percentile on every subtest (where the government school norm is the 50th percentile). The average home school cost per student is $546 per year (not including the opportunity cost of a parent's time spent teaching). Minority students, whom have poor average scores in government schools, perform just as well as all other students in home schools.

25. Variable costs of $5,631 per enrolled student ($5,944 per ADM student times 0.9473) minus $1,000 tax credit cost = $4,631 net savings per student, times 50,000 students = $231.6 million gross savings per year, minus $50 million cost of providing tax credits for the 50,000 students already outside of public schools, = net savings of $181.6 million per year, or $363 million per biennium. This updated and more accurate figure is a substantially larger savings than the $300 million per biennium estimated in the author's last paper, "Finding Common Ground: Oregon State Government After Measure 47."

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