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Background Brief on...

Funding K-12 Schools

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Background: Funding Shifts from Local Districts to the State

The current school finance system is the legacy of two constitutional property tax measures, Ballot Measure 5 in 1990 and Ballot Measure 50 in 1997. These two measures capped local property taxes and placed the responsibility on the state for making up the difference.

In response to the measures, the Legislature has increased state funding from less than 30 percent in 1990-91, to about 68 percent in 2003-05. The K-12 share of this total is about 95.2 percent and the share for Education Service Districts (ESDs) is the remaining 4.8 percent. Given current legislation, this ratio will become 95 percent for schools and 5 percent for ESDs in 2005-06.

STATE SUPPORT OF SCHOOL FUNDING TREND (rounded)							
	91-93	93-95	95-97	97-99	99-01	01-03	03-05
State School Fund	1.9	2.6	3.5	4.3	4.8	4.9 ¹	4.9 ²
local formula funds	3.0	2.5	1.9	1.8	2.0	2.1	2.3 ³
Total	4.9	5.1	5.4	6.1	6.8	7.0	7.2
State share	39%	50%	65%	71%	71%	70%	68%

Prominent in the debate over school funding:

- How much money should be allocated to K-12 schools
- How should those dollars be distributed to ensure equitable opportunities for all students

Revenue Sources

The Legislature appropriates money to schools from two main sources: income taxes through the General Fund and lottery receipts. This money makes up the State School Fund (SSF). The Legislature, after debate and deliberation, sets the amount of state dollars schools are to receive for a two-year funding cycle.

Federal Funds

Schools also receive federal dollars, distributed through the Oregon Department of Education (ODE); however, these dollars are usually tied to specific (“categorical”) programs and can only be spent to support those programs.

¹ Assumes school districts accrued in FY 2002-03, collectively, \$211 million that was paid in July 2003 (SB 1022 – 2002 Third Special Session).

² Total reflects failure of Ballot Measure 30 in February 2004.

³ Reflects increase of \$26.4 million in Common School Fund distributions over 2003 close-of-session estimates

Other Sources

Local revenue continues to be an important source of revenue. While local revenue consists primarily of property taxes, the County School Fund, the Common School Fund, state managed county timber trust land, and other minor sources are included. For the 2003-05 biennium the County School Fund is expected to produce about \$81 million in revenue for schools, the Common School Fund, \$54 million.

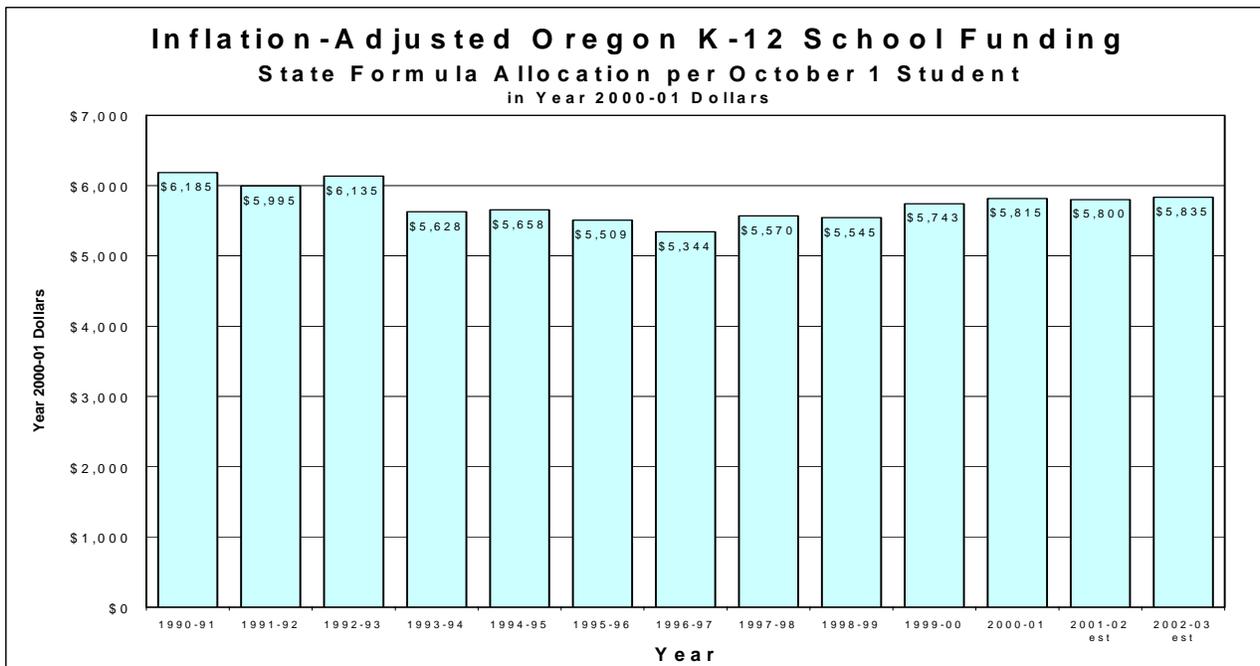
Once the Legislature has determined the funding level for the State School Fund, the ODE is responsible for distributing the funds to local districts using a statutory distribution formula.

NOTE: To achieve desired funding levels of funding for K-12 education, the Legislature has provided funds outside the equalization formula. These amounts are included in the table on the previous page.

Local Option

The 1999 Legislature granted school districts the ability to ask local voters to levy an additional tax on themselves, referred to as the “local option.” The tax may be a fixed dollar amount or a rate-based levy. However, the maximum amount of the tax raised is limited, in order to maintain a degree of funding equalization among districts. The tax raised may be not greater than: 15% of school distribution formula revenue (state and local); \$750 per weighted student; or the “gap” between Ballot Measure 50 limits and Ballot Measure 5 limits.

Should a district collect more than this, the amount over the cap becomes part of the local revenue used by the school formula, and the district would lose the same amount in State School Fund dollars. An operating levy cannot exceed five years, and a capital levy cannot exceed the lesser of ten years or the expected useful life of the capital project.



Figures provided by ODE; “state formula allocation” includes State School Fund and local dollars (property & timber taxes)

Setting the Appropriation Amount

The Legislature sets the school appropriation level, weighing other state services it must also provide. Because K-12 funding takes such a large percentage of the total state budget for General Fund and lottery receipts—45%—the budget is typically set following the May revenue forecast.

Schools would like the education budget set earlier, as they begin their budget process in early spring for the following year. Past legislatures have tried to accommodate this preference, but due to the intense competition among state programs, this is very difficult to accomplish.

In setting the final budget amount, legislators have available to them estimates from the Quality Education Model, figures from the Governor’s School Revenue Forecast Committee, appropriation levels of prior years, and input from districts and other education advocacy groups.

At the close of the 2003 Legislative Session, K-12 education received \$5.2 billion, with a potential for \$5.3 billion if certain economic conditions occur. With the failure of Ballot Measure 30 in February 2004, this amount dropped to \$4.9 billion.

School Funding Distribution Formula

The budgeted amount is then distributed to school districts by the Oregon Department of Education using the school funding distribution formula. The formula was devised in 1991 and placed in law, following the passage of Ballot Measure 5, with the goal being a fair method to distribute state dollars to the state’s schools.

Equalization

With the shift to a primarily state-funded school system, the Legislature determined that it should make up the loss of local dollars in such a way that funded each student (weighted) about equally, throughout the state. Prior to this, per-student funding had been quite disparate, as some districts had supported schools more generously with a higher property tax rate than had others, or some districts had a higher value tax base (or both). A per-student funding target was calculated; those districts spending more than the target were frozen at their existing funding levels, and lower spending districts were gradually brought up to the target level. This equitable funding was phased-in to give districts time to adjust. The result was that some districts enjoyed a boost in funding, while others, such as Portland, saw their revenue decline, when adjusted for inflation.

To achieve equal per-student funding, the current formula reduces state aid if local revenues are high and increases state aid if local revenues are low.

The formula uses five different methods to adjust for cost differences among school districts:

- Teacher experience adjustment
- Weighted student count
- Transportation grant
- Facility grant
- High cost disability grant

Teacher Experience Adjustment

School district pay schedules are based in part on teacher experience. As teacher experience increases, so do salaries. Incorporating this factor into a student weight was problematic, so an adjustment factor was added to the base funding per student. This factor increases (or decreases) each district’s base funding per student by \$25 for each year the district’s average teacher experience exceeds (or falls short of) the statewide average.

Weighted Student Count

The distribution formula allocates funds to districts on a per student basis; however, the formula recognizes that not all students cost the same to educate.

Type of Student	Weight	ADMw
Standard student/standard school	1.00	1.00
Special Education and at Risk		
• Special Education	1.00	2.00
• English as a 2 nd language	.50	1.50
• Pregnant and parenting	1.00	2.00
• Students in poverty	.25	1.25
• Neglected and delinquent	.25	1.25
• Students in foster homes	.25	1.25
Grade and School		
• Kindergarten	-.50	.50
• Elementary district students	-.10	.90
• Union High district students	.20	1.20
• Remote and small schools	Varies	

Transportation Grant

The transportation grant is a 70% to 90% reimbursement of approved student transportation costs. These costs are primarily school bus costs for transport between home and school and class field trips. Districts are ranked by costs per student. Districts ranked in the top 10% have 90% grants. Districts ranked in the next lower 10% have 80% grants and the bottom 80% of districts continue with 70% grants. The remaining 30% is funded from a district’s general purpose grant, to encourage efficiency.

Facility Grant

Funding for new school buildings remains, primarily, the responsibility of the local school district, usually financed through bond sales. However, the Legislature

created a State Facility Grant that became effective in the 1999-2000 budget year and is to be used for classroom equipment outside the bonded debt. This facility grant may be no more than 8% of construction costs, with a biennial limit of \$17.5 million.

High Cost Disability Grant

Some students with disabilities require costly services, far exceeding their double weighting in the funding formula. Districts may apply for reimbursement for service costs greater than \$25,000 per student. The fund is capped at \$12 million per year. This grant sunsets at the end of 2004-05 the school year; the Legislature will reevaluate it when more data are available.

Funding Formula Terms

ADM = *Average Daily Membership*. ADM refers to how many students are in a district.

ADM_r = *Average Daily Membership resident*. ADM_r refers to when kindergarten students are included in the count, as half students.

ADM_w = *Average Daily Membership weighted*. ADM_w refers to the number of weighted students in a district. For example, a special education student has a double weight, and therefore counts as two.

ADM_w extended = *Average Daily Membership weighted extended*. The formula uses the higher of the current year ADM_w or prior year ADM_w. Extended ADM_w is the term for the higher of the two years.

Small High Schools

Because small high schools are more costly to run, a Small School District Supplement Fund has been created, funded with \$5 million from the State School Fund. The amount per student is about \$170 in 2003-04. Small school districts are districts under 8,500 (weighted) students with high schools having less than 350 students for four grades and 267 for three grades. Out of 199 school districts, 97 school districts with 104 small high schools will qualify.

State Special Education

The Oregon Department of Education provides schooling for certain special education students—those in hospitals, long-term care facilities, or state schools for the deaf and blind. The department can bill the State School Fund the average operating costs per student statewide for each of these students. The

estimated charge is about \$16.5 million for the 2003-05 biennium.

Education Service District Funding

An Education Service District, (ESD) supports its component school districts by providing services schools may be too small to administer efficiently, such as special education. There are 20 ESDs in Oregon, serving 199 school districts.

ESDs began receiving SSF dollars after Measure 5's passage to help compensate for property tax cuts. From 1991 to 2001, each Legislature provided for the distribution of State School Fund dollars to ESDs only for the next biennium and was based on a percent of property tax losses due to Measure 5 and 50 until 1999. However, the issue of an imbalance in state and local revenue per student among ESDs was not addressed until 2001.

After lengthy discussion and analysis, the 2001 Legislature created a formula to fund ESDs. When fully phased-in after 4 years, ESDs will receive 5% of the SSF. Because ESDs have been historically funded at different levels, an equalization process will be part of that phase-in. As a result, some ESDs will get more money, others will lose. This will impact the school districts ESDs serve, as the ESD will either be able to provide more services, or fewer.

For more information about the K-12 education appropriation, visit the Legislative Fiscal Office web page, <http://www.leg.state.or.us/comm/lfo/home.htm>

For more information about the school distribution formula or revenue sources for schools, visit the Legislative Revenue Office web page, <http://www.leg.state.or.us/comm/lro/home.htm>

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