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Legislative Committee Services
State Capitol Building
Salem, Oregon 97301
(503) 986-1813

Background Brief on ...

Funding K-12 Schools

Revenue Sources

Oregon's school finance system combines state, local, and federal revenue to support 197 school districts and 19 education service districts (**ESDs**). Most state revenue is distributed to school districts and ESDs by a school distribution formula. Local revenue is raised by or flows to local school districts. Federal revenue is allocated to school districts primarily based on eligibility for federal education programs.

State Revenue

The Legislative Assembly appropriates money to schools from two main sources: income taxes out of the General Fund and lottery receipts. This money generally makes up the State School Fund (**SSF**). The SSF is \$5.71 billion for the 2011-2013 biennium and constitutes about 64.5 percent of state and local school funding. The Legislative Assembly, after debate and deliberation, sets the amount of state dollars that schools are to receive for a two-year funding cycle. Two issues take prominence 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?

Local Revenue

Local revenue continues to be an important source of school funding. An estimated \$3.1 billion for 2011-2013 comprises 35.5 percent of state and local school formula support. Local revenue is primarily school district property taxes raised from a permanent property tax rate. The County School Fund, the Common School Fund, state-managed county timber trust land, and other minor sources are included in the formula. For the 2011-2013 biennium, the County School Fund, which includes

revenue that the U.S. Congress grants the state as federal timber replacement revenue, is expected to produce about \$31 million in revenue for schools and the Common School Fund about \$101 million.

Local Option

The 1999 Legislative Assembly 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 not be greater than: 20 percent of school distribution formula revenue (state and local); \$1,000 per weighted student (increasing by 3 percent per year beginning in 2008); or the “gap” between Ballot Measure 50 (1997) limits and Ballot Measure 5 (1990) 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 SSF dollars.

Federal Revenue

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

Setting the State Appropriation

The Legislative Assembly sets the school appropriation level, weighing it against other state services it must also fund. Because K-12 commands a large percentage of the total state budget for General Fund and lottery funds – 38.7 percent – the budget is typically set following the May revenue forecast.

School administrators would prefer to see education budgets set earlier, as they begin their budgeting 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 has been 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.

The 2011 Legislative Assembly approved funding of K-12 education for the 2011-2013 biennium at approximately \$5.7 billion, \$125 million of which is outside the state school funding formula.

School Funding Distribution Formula

The SSF amount, along with formula local revenue, is split between school districts (95.5 percent) and ESDs (4.5 percent). The ODE then allocates the school share to districts using the school funding distribution formula. The formula was designed in 1991, after passage of Ballot Measure 5, with the goal of providing an equitable method for the distribution of state dollars to school districts.

Equalization

With the shift to a primarily state-funded school system, the Legislative Assembly 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.

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

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

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

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 each year the district's average teacher experience exceeds (or falls short of) the statewide average.

Transportation Grant

The transportation grant is a 70 to 90 percent 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 percent have 90 percent grants. Districts ranked in the next lower 10 percent have 80 percent grants and the bottom 80 percent of districts continue with 70 percent grants. The remaining 30 percent 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 and is usually financed through bond sales. However, the facility grant helps fund classroom equipment that cannot be financed by bonded debt. The facility grant may be no more than 8 percent of construction costs, and the biennial limit is \$25 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 annual service costs greater than \$30,000 per student. The fund is capped at \$18 million per year.

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 care | .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 | |

- Average Daily Membership (weighted)

Small High Schools

Because small high schools may not be adequately funded by the additional student weight, a Small School District Supplement Fund was created with \$5 million from the SSF. 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. Currently, 84 school districts out of 197 qualify.

State Special Education

The ODE provides schooling for certain special education students, i.e., those in hospitals or long-term care facilities, and manages the state school for the deaf. The ODE can bill the SSF the average operating costs per student statewide for each of these students. The estimated charge is about \$20.2 million for the 2011-2013 biennium.

Education Service District Funding

An ESD supports its component school districts by providing services school districts may be too

small to administer efficiently, such as special education.

ESDs statewide are allocated 4.5 percent of both school and ESD state and local formula revenue. Each ESD’s formula revenue is calculated as about 4.7 percent of its component school district formula revenue with a minimum of \$1 million per ESD. Consequently, ESD revenue is based on the same equalization concepts in the school distribution calculation. The SSF amount consists of the ESD formula allocation less local ESD revenue which is almost entirely property taxes.

ESDs began receiving SSF dollars only after the passage of Ballot Measure 5 to help compensate for property tax cuts. From 1991 to 2001, each Legislative Assembly provided SSF dollars to ESDs only for the next biennium, based on a percent of property tax losses due to Ballot Measures 5 and 50. However, the issue of an imbalance in state and local revenue per student among ESDs was not addressed until 2001 with a phase-in approach leading up to current policy. ESDs first received a fixed share (initially 5 percent) of state and local formula revenue beginning in 2005-2006.

Background

The current school finance system is the legacy of two constitutional property tax measures, Ballot Measure 5 and Ballot Measure 50. These two measures capped local property taxes and placed the responsibility on the state for making up the difference. Prior to this, per-student funding had been quite disparate, with some districts supporting schools more generously with a higher property tax rate and others having a higher value tax base per student, or both.

In response to the Ballot Measures, the Legislative Assembly has decreased state funding from approximately 50 percent of the General Fund and lottery budget in the 1993-1995 biennium, to about 38.7 percent of General Fund and lottery revenue in 2011-2013. To equalize revenue per student, the 1991 Legislative Assembly adopted and phased in the

school distribution formula. 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 allowing districts time to adjust. As a result, some districts enjoyed a boost in funding per student, while others saw a decline when adjusted for inflation.

| State Support Of School Funding Trend (\$ billions) | | | | |
|--|-------------------|---------------------|-------|-------------|
| Year | State School Fund | Local Formula Funds | Total | State Share |
| 1993-1995 | 2.5 | 2.5 | 5.1 | 50% |
| 1995-1997 | 3.5 | 1.9 | 5.4 | 65% |
| 1997-1999 | 4.2 | 1.8 | 6.0 | 70% |
| 1999-2001 | 4.6 | 2.0 | 6.6 | 70% |
| 2001-2003 | 4.6 | 2.2 | 6.8 | 68% |
| 2003-2005 | 4.9 ¹ | 2.4 ² | 7.3 | 67% |
| 2005-2007 | 5.3 | 2.6 | 7.9 | 67% |
| 2007-2009 | 5.8 ³ | 2.9 | 8.7 | 67% |
| 2009-2011 | 5.7 | 3.0 | 8.7 | 66% |
| 2011-2013 Est. | 5.71 | 3.1 | 8.8 | 64.5% |

¹ Total reflects failure of Ballot Measure 30 in February 2004.

² Reflects increase of \$26.4 million in Common School Fund distributions over 2003 close-of-session estimates.

³ Does not include \$251 million of School Improvement Fund dollars.

To achieve the desired level of state and local funding for K-12 education, the Legislative Assembly has provided funds outside the distribution formula for some years. These amounts are generally excluded in the table above.

Staff and Agency Contacts

Victoria Cox
[Legislative Committee Services](#)
 503-986-1664

Legislative Fiscal Office web page for K-12 education appropriation information:

www.leg.state.or.us/comm/lfo/home.htm

Legislative Revenue Office web page for research reports on the school distribution formula and revenue sources:

www.leg.state.or.us/comm/lro/home.htm

Doug Wilson

[Legislative Fiscal Office](#)

503-986-1837

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