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Background Brief on ...

# Funding K-12 Schools

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## Background

The current school finance system is the legacy of two constitutional property tax measures, Ballot Measure 5 (1990) and Ballot Measure 50 (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 of the General Fund budget in 1990-91, to about 68 percent in 2005-07. The K-12 share of this total is about 95.25 percent and the share for Education Service Districts (**ESDs**) is the remaining 4.75 percent, this ratio for ESDs started in 2006-07.

STATE SUPPORT OF SCHOOL FUNDING TREND (rounded) to billions								
	91-93	93-95	95-97	97-99	99-01	01-03	03-05	05-07 (updated Est.)
State School Fund	1.9	2.6	3.5	4.3	4.8	4.9 <sup>1</sup>	4.9 <sup>1</sup>	5.3
local formula funds	3.0	2.5	1.9	1.8	2.0	2.1	2.3 <sup>3</sup>	2.6
Total	4.9	5.1	5.4	6.1	6.8	7.0	7.2	7.9
State share	39%	50%	65%	71%	71%	70%	68%	67%

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.

### *Other Sources*

Local revenue continues to be an important source of funding. 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 2005-07 Biennium the County School Fund is expected to produce about \$14 million in revenue for schools, the Common School Fund about \$90 million.

Once the Legislature has determined the funding level for the State School Fund, 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.

### **Setting the Appropriation Amount**

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

Schools would prefer the education budget be 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 2005 Legislative Session, K-12 education received \$5.24 billion, plus an additional \$23 million when certain economic conditions occur based on the June 2006 revenue forecast, which brought the funding level to \$5.263 billion. During the April 2006 Special Session the Legislature approved an allocation of \$42 million in Lottery Funds for the State School Fund. With this addition, on average, school districts received an additional \$63 per student for

the 2006-07 school year.

### *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 percent 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.

### **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, with some districts supporting schools more generously with a higher property tax rate than had others, some districts having 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
- Transportation grant
- Facility grant
- Weighted student count
- 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 each year the district's average teacher experience exceeds (or falls short of) the statewide average.

#### *Transportation Grant*

The transportation grant is a 70 percent 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 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 percent of construction costs, and the biennial limit was raised to \$25 million during the 2005 Session beginning in 2007-09.

#### *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
<b>Special Education and at Risk</b>		
• Special Education	1.00	2.00
• English as a 2 <sup>nd</sup> 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
<b>Grade and School</b>		
• Kindergarten	-.50	.50
• Elementary district students	-.10	.90
• Union High district students	.20	1.20
• Remote and small schools	Varies	

#### **Funding Formula Terms**

**ADM** = *Average Daily Membership*. ADM refers to how many students are in a district on average during the school year.

**ADM<sub>r</sub>** = *Average Daily Membership resident*. ADM<sub>r</sub> refers to when kindergarten students are included in the count, as half students.

**ADMw** = *Average Daily Membership weighted*. ADMw 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.

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

#### *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 \$30,000 per student. The fund is capped at \$12 million per year

#### *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. 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. There are 102 school districts out of 198 that 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 \$18.5 million for the 2005-07 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 198 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, based on a percent of property tax losses due to Measure 5 and 50. However, the issue of an imbalance in state and local revenue per student among ESDs was not addressed until 2001.

During the 2005 Session, several proposals for consolidation of ESDs were discussed in committee's and work groups. Ultimately, House Bill 3184 was passed, reducing the ESD portion of the State School Fund from five percent to 4.75 percent and changing the minimum funding from \$1 million to \$950,000.

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>

### **Staff and Agency Contacts**

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

<sup>2</sup> Total reflects failure of Ballot Measure 30 in February 2004.

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

*Steve Meyer, Legislative Revenue Office, assisted with the development of this document.*