



June 2010

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Background Brief on ...

Funding K-12 Schools

Revenue Sources

Oregon's school finance system is a combination of state, local, and federal revenue for 197 school districts and 20 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 \$6 billion for the 2009-2011 biennium and is about 66 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 are 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

Local Revenue

Local revenue continues to be an important source of school funding. An estimated \$3 billion for 2009-2011 comprises 34 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 2009-2011 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 \$64 million in revenue for schools and the Common School Fund about \$99 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 provide for. Because K-12 funding takes a large percentage of the total state budget for General Fund and lottery funds—39 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 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 2009 Legislative Assembly funded K-12 education for the 2009-2011 biennium at about \$6 billion, \$200 million of which is contingent on statewide financial conditions. For the 2007-2009 biennium, state support was \$5.8 billion plus an additional \$251 million for the School Improvement Fund.

School Funding Distribution Formula

The SSF amount, along with formula local revenue, is split between school districts (95.25 percent) and ESDs (4.75 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 being a fair method to distribute 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 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 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	

- 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, funded 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. There are 99 school districts out of 197 that 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 schools 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 \$19.6 million for the 2009-2011 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 4.75 percent of both school and ESD state and local formula revenue. Each ESD's formula revenue is calculated as about 4.9 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 is 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 increased state funding from approximately 50 percent of the General Fund and lottery budget in the 1993-1995 biennium, to about 42 percent of General Fund and lottery revenue in 2009-2011. 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. The result was that 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 Est.	5.8 ³	2.9	8.7	67%
2009- 2011 Est.	6.0	3.0	9.0	66%

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

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

³Does 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

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

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*Steve Meyer, Legislative Revenue Office, assisted
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