



LPRO: LEGISLATIVE POLICY AND RESEARCH OFFICE

# K-12 FUNDING

## BACKGROUND BRIEF

Oregon's school finance system combines state, local and federal revenue to support 197 school districts and 19 education service districts (ESDs). Funds are distributed to school districts and ESDs in two general ways. The largest source of school funding is from the School Funding Formula which allocates state resources appropriated to the State School Fund and local revenues (e.g., property taxes) through a statutory equalization formula. The second source of funding for schools is various grants-in-aid programs funded with state and federal resources for specific purposes such as nutrition, special education, and professional development.

### SCHOOL FUNDING REVENUE RESOURCES

The legislature provides state resources for the funding formula from three main sources: (1) General Fund-- primarily income taxes; (2) lottery receipts; and (3) in 2019-2021--for the first time--the Fund for Student Success from the new Commercial Activities Tax. This money generally makes up the State School Fund (SSF). The SSF is \$9.0 billion for the 2019-2021 biennium and constitutes about 67.8 percent of the total state and local school formula support. The legislature sets the amount of state dollars that schools receive for the two-year funding cycle. Two issues take prominence in the debate over state school formula funding:

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

Local revenue continues to be an important source of school funding. An estimated \$4.3 billion for 2019-2021 comprises 32.2 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 2019-2021 biennium, the County School Fund is estimated to be \$21.9 million;

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the revenue from state forest timber \$0.4 million; Federal Forest Fees \$12.6 million; State Timber and miscellaneous local revenues \$51.3 million; and the Common School Fund about \$11.4 million.

In 1999, the 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 exceed: (1) 20 percent of school distribution formula revenue (state and local); or (2) \$1,000 per weighted student (increasing by 3 percent per year beginning in 2008); or (3) 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 loses the same amount in SSF dollars. The state provides a limited amount of additional assistance to districts levying this optional tax through the Local Option Equalization Grant (\$4.0 million estimated for 2019-2021).

## **SETTING THE STATE APPROPRIATION**

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The legislature sets the amount for the SSF, weighing it against other state services it must also fund. Resources for the SSF command a large percentage of the total state budget for General Fund and Lottery Funds--around 35 percent for 2019-2021.

## **SCHOOL FUNDING DISTRIBUTION FORMULA**

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The SSF amount, along with formula local revenue, is split between school districts (95.5 percent) and ESDs (4.5 percent). The Oregon Department of Education (ODE) then allocates the school share to districts using the school funding equalization 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.

### **School District Funding**

#### **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 a way that equitably funds students throughout the state. To achieve equal per-student funding, the current formula adjusts state aid based on local funding.

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

- teacher experience adjustment; and
- transportation 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.

### 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 transportation costs must be funded from a district's general purpose grant, to encourage efficiency.

### 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. Additional funding is provided for students based on their educational needs as defined in statute and outlined in Table 1. The term weighted Average Daily Membership or ADMw is used to measure the differences in students' educational needs.

**Table 1: Student Weight Calculations**

Type of Weight	Weight
Standard student/standard school	1.00
<b>Additional Weights</b>	
Special Education	1.00
English language learner	.50
Pregnant and parenting	1.00
Students in poverty	.25
Neglected and delinquent	.25
Students in foster care	.25
Non full-day Kindergarten student	-.50
Elementary district students	-.10
Union High district students	.20
Remote and small schools	Varies

Source: Legislative Revenue Office

### Small High Schools

Small high schools may not be adequately funded by the additional student weight, so 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. This provision sunsets in June 2020.

### **Other Educational Settings**

ODE provides schooling for certain students (e.g., those in hospitals or long-term care facilities) and manages the state School for the Deaf. ODE can bill the SSF for each of the students in these settings based on average costs for students statewide. In addition, some of these programs receive additional funding through grants-in-aid.

### **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 grants may be no more than eight percent of construction costs, and they are funded at \$7 million for the 2019-2021 biennium.

### **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 \$35 million for the first year of the 2019-2021 biennium, and \$55 million for the second.

### **Oregon School Capital Improvement Matching Program**

The 2015 Legislative Assembly directed ODE to establish the Office of School Facilities and distribute grant funds and technical assistance to support local capital improvement efforts. For 2019-2021, \$125 million in general obligation bonds were authorized to fund state matching grants to school districts that assist in financing locally approved bond facility projects.

## **EDUCATION SERVICE DISTRICT FUNDING**

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An ESD supports its component school districts by providing services school districts may be too small to administer efficiently, such as special education. Services provided by ESDs vary significantly across the state according to the needs of local school districts.

ESDs statewide are allocated four and one-half percent of both school and ESD state and local formula revenue. Each ESD's formula revenue is calculated as about four and seven-tenths percent of its component school district formula revenue with a minimum of \$1.165 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, the legislature 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 five percent) of state and local formula revenue beginning in 2005-2006.

## FUNDING FORMULA BACKGROUND

The current school funding formula system is the result 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 to replace the lost revenue. 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.

Accordingly, the state share in total school funding has increased from approximately 50 percent in the 1993-1995 biennium, to about 67.8 percent in 2019-2021. To equalize revenue per student, the 1991 Legislative Assembly adopted and phased in the school distribution formula, and 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. Table 2 illustrates the trend in state school funds and local funds from 1993 to the present.

**Table 2: Formula Revenue**

<b>State Support of School Funding Trend (\$ billions)</b>				
<b>Biennium</b>	<b>State School Fund</b>	<b>Local Formula Funds</b>	<b>Total</b>	<b>State Share</b>
93-95	\$2.5	\$2.5	\$5.1	50%
95-97	\$3.5	\$1.9	\$5.4	65%
97-99	\$4.2	\$1.8	\$6.0	70%
99-01	\$4.6	\$2.0	\$6.6	70%
01-03	\$4.6	\$2.2	\$6.8	68%
03-05	\$4.9 <sup>1</sup>	\$2.4 <sup>2</sup>	\$7.3	67%
05-07	\$5.3	\$2.6	\$7.9	67%
07-09	\$5.8 <sup>3</sup>	\$2.9	\$8.7	67%
09-11	\$5.7	\$3.0	\$8.7	66%
11-13	\$5.78	\$3.1	\$8.8	67%
13-15	\$6.65	\$3.32	\$9.97	67%
15-17	\$7.373	\$3.680	\$11.06	67%
17-19	\$8.2	\$3.98	\$12.2	67%
19-21	\$9.0	\$4.3	\$13.3	68%

Source: Legislative Fiscal Office

<sup>1</sup> Total reflects failure of Ballot Measure 30 in February 2004.

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

<sup>3</sup> Does not include \$251 million of School Improvement Fund dollars.

## GRANTS-IN-AID

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The second major funding source for K-12 education is grants made for specific purposes or directed at specific populations. These are referred to as Grants-in-Aid. These grants are primarily funded with both state and federal resources and are distributed to school districts, ESDs and other entities providing educational services. State resources, other than General Fund, included as funding sources for these grants include Tobacco Master Settlement proceeds for physical education grants and distributions from the SSF for specific purposes such as educator professional development and educational services to specific populations. The largest programs in this Grants-in-Aid category include nutritional programs such as the school lunch program, special education funding through the Individual with Disabilities Education Act, and early childhood special education. Overall for 2019-2021, these total over \$487.4 million General Fund and \$2.74 billion total funds. Beginning in 2019-2021, Grant-in-Aid programs will include many of the new or expanded programs funded through the Student Success Act with revenues from the new Commercial Activities Tax.

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Legislative Fiscal Office web page for K-12 education appropriation information:  
<https://www.oregonlegislature.gov/lfo>

Legislative Revenue Office web page for research reports on the school distribution formula and revenue sources:  
<https://www.oregonlegislature.gov/lro>

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