

K-12 EDUCATION FUNDING



LPRO
LEGISLATIVE POLICY
AND RESEARCH OFFICE

About this Report

This report provides an explanation of K-12 school funding in Oregon. It covers both the sources of revenue that are used and the means of distributing those funds to local school districts.



Staff

Lisa Gezelter, Legislative Analyst

Budget information provided by the Legislative Fiscal Office

Legislative Policy and Research Office

Legislative Fiscal Office

Oregon State Capitol | (503) 986-1813 | www.oregonlegislature.gov/lpro

The Legislative Policy and Research Office (LPRO) provides centralized, nonpartisan research and issue analysis for Oregon's legislative branch. LPRO does not provide legal advice. LPRO publications contain general information that is current as of the date of publication. Subsequent action by the legislative, executive, or judicial branches may affect accuracy.



Report: K-12 Education Funding

DATE: August 31, 2023

Table of Contents

About this Report	i
School Funding Revenue Sources	1
Setting the State Appropriation	2
School Funding Distribution Formula Background	2
School Funding Distribution Formula	3
Education Service District Funding	6
Grants-in-Aid	6



Oregon’s school finance system combines state, local, and federal revenue to support 197 school districts and 19 education service districts (ESDs). Funds are primarily distributed to school districts and ESDs in two ways. The largest source of school funding is 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 major source of funding for schools is various grant-in-aid programs funded with state and federal resources for specific purposes such as nutrition, special education, and professional development.

Two questions figure prominently in discussions of school funding:

- How much money should the legislature allocate to the State School Fund for K-12 schools?
- How should the state distribute those dollars to ensure equitable opportunities for all students?

School Funding Revenue Sources

The legislature provides state funding for K-12 education from three main sources: (1) the General Fund, primarily income taxes; (2) lottery receipts; and (3) the Fund for Student Success, with revenue from the Corporate Activities Tax. Money from these three sources goes into the State School Fund (SSF), while additional money from the Corporate Activities Tax is distributed in the form of grants to school districts for specific purposes.

Each biennium, the legislature sets the amount of state dollars that schools will receive for the two-year funding cycle. The SSF allocation is \$10.2 billion for the 2023-2025 biennium and constitutes about 66.5 percent of the total money – from both state and local sources – distributed through the formula.

Local revenue constitutes an important source of school funding. An estimated \$5.1 billion for 2023-2025 comprises 33.5 percent of the total money – from both state and local sources – distributed through the formula. Local revenue is primarily school district property taxes raised from a permanent property tax rate. Additionally, 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 2023-2025 biennium, the County School Fund is estimated to be \$27.8 million; State Timber and miscellaneous local revenues \$48.4 million; and the Common School Fund about \$149.3 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 tax raised is limited in order to maintain a degree of funding equalization among districts. [ORS 327.011](#) limits the tax raised to:

- 25 percent of state and local school distribution formula revenue;
- \$2,000 per weighted student, increasing by three percent per year; 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 may become part of the local revenue used by the school formula, and the district may lose 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, which is estimated at \$4 million for 2023-2025.

In addition to state and local revenues, the Oregon Department of Education and Oregon's school districts receive certain grant-in-aid from the federal government to maintain specific programs, e.g., Title I funding for schools with high poverty rates.

Setting the State Appropriation

The legislature sets the total amount for the SSF, weighing it against other state services that also require funding. Resources for the SSF command a large percentage of the total state budget for General Fund and Lottery Funds—around 28.2 percent for 2023–2025.

Each biennium, the executive branch calculates current service level (CSL), the projected amount required for the continuation of existing programs and services. From 1999 until 2014, [Executive Order 99-15](#) governed a process for determining CSL that included input from local stakeholders. In 2014, [Executive Order 14-14](#) changed that process. In 2017, passage of [Senate Bill 1067](#) enacted a cap on the rate of increase of health care costs that could be incorporated into the CSL calculation. While the Joint Committee on Ways and Means considers CSL in determining an amount for the SSF appropriation, the calculated CSL amount does not limit the committee's ability to set any amount it chooses.

School Funding Distribution Formula Background

The current school funding formula system is the result of legislation, as well as two constitutional property tax measures, [Ballot Measure 5 \(1990\)](#) and [Ballot Measure 50 \(1997\)](#). Previously, the state had provided basic support to districts on a per-pupil basis, while some districts supported their schools more generously with a higher property tax rate, higher-value tax base, or both. These two ballot measures capped local property taxes and placed the responsibility on the state to replace the lost revenue. The legislature enacted the equalization formula in 1991 with the passage of [Senate Bill 814](#). The new formula took into account the needs of each district's student population by assigning weights to students based on need, and then distributing funding based on each district's weighted population.

Accordingly, the state share in total school funding has increased from approximately 50 percent in the 1993-1995 biennium to about 66.9 percent in 2021-2023. To equalize revenue per student, the 1991 Legislative Assembly adopted and phased in the school



distribution formula. Table 1 illustrates the trend in state and local funds from 1993 to the present.

Table 1: Trend in State vs. Local Funding of Schools, in Billions

Biennium	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	\$5.78	\$3.1	\$8.8	67%
2013-2015	\$6.65	\$3.32	\$9.97	67%
2015-2017	\$7.37	\$3.680	\$11.06	67%
2017-2019	\$8.2	\$3.98	\$12.2	67%
2019-2021	\$9.0	\$4.3	\$13.3	68%
2021-2023	\$9.3	\$4.6	\$13.9	67%
2023-2025	\$10.2	\$5.1	\$15.3	67%

Source: Legislative Policy and Research Office
Data: Legislative Fiscal Office

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.

School Funding Distribution Formula

The SSF appropriation, along with formula local revenue, is split between school districts and ESDs, with school districts receiving 95.5 percent and ESDs receiving the remaining 4.5 percent. The Oregon Department of Education (ODE) then allocates money to each school district using the school funding equalization formula. To achieve equitable 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;



- transportation grant; and
- weighted student count.

Teacher Experience Adjustment

School districts' 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 per-student funding. 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, primarily consisting of school bus costs for transport between home and school, as well as class field trips. Districts are ranked by cost per student. Districts ranked in the top 10 percent receive grants for 90 percent reimbursement of transportation costs. Districts ranked in the next lower 10 percent receive 80 percent grants, and the remaining 80 percent of districts receive 70 percent grants. To encourage efficiency, districts must fund remaining transportation costs from their general purpose grants.

It is currently estimated the grant will pay approximately \$291 million in the 2023-24 school year, and just over \$300 million in the 2024-25 school year when accounting for inflationary adjustments. It is also anticipated there may be some new costs associated with alternative modalities of transportation for students, where HB 3014 (2023) directs the Department of Education to adopt rules for reimbursement of school district expenses incurred for alternative transportation costs.

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. Districts receive additional funding based on the educational needs of their student populations as defined in [ORS 327.013](#) (2021) and outlined in Table 2.

The weighted Average Daily Membership, or ADM, measures the differences in students' educational needs. Where a student who is not in any of the additional-weight categories would be worth 1 weight, a student in poverty who is also an English language learner would be worth 1.75 weights. However, districts may claim only 11 percent of their students under the Special Education weight, although most districts typically have a higher percentage of students identified and receiving special education services as required under federal and state law. Special education is the only weight that is capped in this way.

Table 2: Student Weight Calculations



Type of Weight	Weight
Standard student/standard school	1.00
Additional Weights	
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 based on weighted student population, 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.

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. Some of these programs receive additional funding through grants-in-aid.

Facility Grant

Funding for new school buildings remains, primarily, the responsibility of local school districts and is usually financed through bond sales. Facility grants were repealed by passage of Senate Bill 1002 in 2023 in favor of School Safety and Emergency Management Program grants (SSEM). The SSEM program is currently federally funded and provides funding for five education service districts to improve school districts' proficiency in emergency management fundamentals. For the 2023-2025 biennium, the legislature allocated \$3 million to this program.



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 \$55 million for each year of the 2023-2025 biennium.

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 2023-2025, \$100 million in new Article XI-P general obligation bonds were authorized under Article XI-P of the Oregon Constitution and [ORS 286A.796 et seq](#) to fund state matching grants to school districts that assist in financing locally approved bond facility projects.

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. Services provided by ESDs vary significantly across the state according to the needs of local school districts.

ESDs statewide are allocated 4.5 percent of both school and ESD state and local formula revenue. The state calculates each ESD's formula revenue as about 4.7 percent of its component school district formula revenue with a minimum of \$1.522 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 minus local ESD revenue, which comes almost entirely from 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 percentage 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 addressed in 2001 with a phased-in approach. ESDs first received a fixed share (initially five percent) of state and local formula revenue beginning in 2005-2006.

Grants-in-Aid

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 the 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 Individuals [with Disabilities Education Act](#), and early childhood special education. Overall, for 2023-2025, these total nearly \$501.3 million General Fund and \$4.9 billion total funds. Beginning in 2019-2021, Grant-in-Aid programs included many new or expanded programs funded through the Student Success Act with revenues from the Corporate Activities Tax and distributed to districts via the Student Investment Account and the Statewide Education Initiatives Account

