



2009 SCHOOL FINANCE LEGISLATION

Funding and Distribution

RESEARCH REPORT #8-09

October 2009

Legislative Revenue Office

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<http://www.leg.state.or.us/comm/lro/home.htm>



STATE OF OREGON

Research Report

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INTRODUCTION

This report describes legislation affecting Oregon's school finance system that the Legislature passed in the 2009 regular session. The school finance system funds K-12 school districts and Education Service Districts (ESDs). State support of school districts and ESDs is primarily funded through the State School Fund, but also includes other funding.

School finance legislation in the 2009 regular session focused on three major issues: 2007-09 state funding revisions, the level of 2009-11 state school funding and changes to the distribution of state aid. The Legislature adopted a state support package of \$5.98 billion including federal stimulus funds. No revenue was allocated to the School Improvement Fund for the 2009-11 biennium. The K-12 equalization formula was modified somewhat. Proposals to substantially change the transportation grant were not successful. Also a plan to merge education service districts was discussed at length but not adopted.

The 2009 legislation is a continuation of incremental changes to the state's school finance system that was adopted in 1991 after voters passed Ballot Measure 5 in 1990. State funding was less than 30% of school general operating revenue in 1990-91, but increased to about 70% in 1997-98 and has remained at almost this level since then.

The first section of this report summarizes state appropriations and local revenue estimates for the 2009-11 biennium. The second section describes changes to the school equalization formula and other funding changes. The last section has a brief description of the changed formula as it now applies to the 2009-11 allocation of state school funds. The ESD allocation is also briefly reviewed.

K-12 AND ESD FUNDING

State School Fund

The 2009 Legislature allocated \$5.98 billion to the State School Fund (SSF) for state aid to K-12 school districts, Education Service Districts (ESDs) and other minor education programs. This is about 42% of legislatively approved General Fund and state lottery expenditures. The biennial appropriation is in SB 5520 and is modified in HB5054. The table summarizes the

State School Fund Sources			
	2009-10	2010-11	Biennium
General Fund	\$	\$	\$ 5,111.5
Lottery			439.8
Federal Stimulus			226.1
Trigger Rainy Day and GF			200.0
Miscellaneous			3.6
Total	\$2,940.1	\$3,060.1	\$5,981.1
Percent Change	1.0%	3.4%	2.6%
07-09 Comparison With School Improvement and School Days Restoration	-4.8%	3.4%	-2.5%
Dollars in millions			

results of these bills. The General Fund portion is 85.5% of the total and lottery funds 7.4%. The remaining 7.1% includes \$200 million from the Rainy Day Fund and General Fund ending balance. The trigger for these two sources requires a combined \$100 million estimated ending balance in these two funds and the Education Stability Fund. Comparison to 2007-09 is complicated by there being a School Days Restoration Fund and an appropriation to the School Improvement Fund for 2007-09. Neither was funded for 2009-11. Also the 2007-09

numbers were adjusted in the 2006 special session and by the 2009 Legislature. The net result is about a 2.5% reduction in state school aid for the 2009-11 biennium.

The total State School Fund maximum expenditure is set for each year of the biennium, but the appropriations and limitations are for the whole biennium. The annual split for funding sources is not specified in the legislation. This change started in 2005. The reason is to allow some flexibility between funding sources. In each year of the biennium, if one source is above estimate and the other below, then some substitution can take place as long as the biennial total for that source is not exceeded and the annual combination of sources is not exceeded.

State School Fund Allocation

This biennium the State School Fund is divided up into fewer separate programs. In 2007-09 there were several uses other than for direct allocation to school districts and ESDs. The table on the following page shows the estimated 2009-11 allocations. One-half of one percent is for grants and programs funded directly out of the State School Fund. The ESD share is 4.0% and the school district share is 95.5%.

School districts and ESDs get specific percentage shares of State School Fund and local revenue after subtracting other special State School Fund uses. The individual school district and ESD allocations depend on local revenue collections. The accuracy of local revenue

estimates may cause a small shift in state funds between ESDs and school districts. K-12 and ESD local revenue is in addition to the state funds shown here. The school district and ESD equalization methods for the distribution of the State School Fund to them are described later.

State School Fund Allocation			
	2009-10	2010-11	Biennium
Special Programs			\$ Millions
Oregon virtual school (SB5520)			\$ 1.80
Talented and gifted			0.35
Speech-language pathologists			0.15
Total	\$ 1.15	\$ 1.15	\$ 2.30
K-12 School			
School Equalization Formula	2,810.1	2,906.7	5,716.8
Small High School Grants	2.5	2.5	5.0
State Special Education Grants	9.8	9.8	19.6
ESD			
Equalization Allocation	116.0	120.3	236.3
10 th grade assessment testing	0.5	0.6	1.1
Total	\$ 2,940.1	\$3,041.0	\$ 5,981.1
Dollars in millions; K-12 includes youth corrections and juvenile detention education programs.			

The appropriation bill gives a biennial funding limit. There is no split between the first and second year of the biennium for special programs. This is why these cells remain blank. The assumption is that in total about half of the total funding for these services will be spent each year.

State School Fund dollars continue to be used for 10th grade assessment testing. Legislation allowed a waiver to eligible districts during the 2009-11 biennium. Waiver districts are reimbursed for the cost of alternative assessment tests. Assessment costs up to \$550,000 per year are paid from State School Fund dollars that otherwise would go to education service districts.

Small High Schools

Small high schools in small school districts share \$2.5 million of State School Fund revenue each year (ORS 327.008). Funds are transferred to the Small School District Supplement Fund. This is a continuation of the 2003-05 supplement fund of \$5 million which sunset in June 2005. The 2005 Legislature reenacted the legislation and made the transfer permanent. The 2007 Legislature added a new sunset date of 2012.

Small school districts are districts under 8,500 weighted students with high schools having less than 350 students for 4 grades and 267 for three grades. Each small school district receives the same dollar amount per high school ADM (average daily membership) each year of the biennium. The \$2.5 million per year is divided by the sum of the qualified small high school ADM in small districts. This statewide amount per ADM is then multiplied by the small district's number of small high school ADM for a district total. This is the same as allocating the funds based on each district's proportional share of qualified ADM.

State Special Education

The Department of Education provides schooling for certain special education students (ORS 343.243). These students are in hospitals, long-term care facilities or the state school for the deaf. The state school for the blind was included before the legislative decision to close this school in 2009. 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 \$19.6 million for the 2009-11 biennium. The total charge is not limited by statute, but funds a specified number of slots. This continues a policy adopted by the 2001 Legislature which shifted Department of Education billing for these special education students from the County School Fund to the State School Fund.

Local Formula Revenue

The table shows estimated local funding of K-12 school and ESD operations. Local revenue here is the amount only from sources included in the school equalization formula by statute. Local revenue is still a significant source of funding even with Measure 50 from 1997. Currently it is about 34% of state and local funding.

Formula Local Revenue Estimates			
	2009-10	2010-11	Biennium
K-12 School			
Property Taxes	\$1,325.1	\$1,343.8	\$2,668.9
Other Sources	81.0	78.3	159.3
Total	1,406.1	1,422.2	2,828.2
Percent Increase	2.9%	1.1%	4.7%
ESD			
Property Taxes	93.7	95.1	188.8
Percent Increase	3.1%	1.5%	6.1%
Dollars in millions. Based on close of session local revenue estimates.			

Local revenue is 33% of school formula revenue and 44% of ESD revenue. Local revenue stays in the district where collected. However, local revenue is treated as a statewide resource for equalization purposes.

The 2009 Legislature made one change to local revenue. Legislation allowed Portland School District to continue to levy its current property tax rate while excluding taxes from \$0.50 of the

rate from the district's formula local revenue. This is a continuation of a policy adopted in the 2006 special session.

In the K-12 equalization formula local revenue is mostly property taxes, including taxes paid for prior years, but also includes Common School Fund, County School Fund, state managed county timber trust land and other minor sources. Traditional school district revenue sources having a state or county origin are statutorily referred to as local revenue. The state or counties

serve as revenue collectors and make mandatory payments to school districts. School local revenue also includes any federal timber related funding that is distributed through the county school fund.

The major source of ESD local revenue is property taxes collected by districts. The other minor source is revenue from state managed county timber trust land distributed to districts (also known as Chapter 530 revenue). Local revenue here does not include revenue from the sale of contract services to school districts or other ESDs.

County School Fund

The County School Fund has multiple minor sources of revenue adding up to about \$7 million per year. The major source is the additional school revenue Congress granted states as federal timber replacement revenue in the Secure Rural Schools and Community Self-Determination Act of 2000. The estimate for the federal portion of County School Fund revenue is \$51.4 million for 2009-11. Congress reauthorized the Act for three years in 2008 so the Act continues in 2009-11, but at reduced levels. The distribution decreases by 10% per year.

SB 486 from 2001 clarified that 25% of federal timber related funds for national forests will be distributed to school districts in the same way as in the past and be included in school local formula revenue. The 2007 Legislature extended the 2007 sunset in this 2001 legislation to 2013.

Common School Fund

The Common School Fund revenue estimate of \$95.6 million for 2009-11 is based on a new State Land Board distribution policy adopted in early 2009. The Board changed the percent for distribution to a fixed 5% from a scale of 2% to 5%. The percentage applies to a three-year rolling average of year end fund values. With an anticipated lower average of fund values, the higher distribution percentage helps keep the 2009-11 revenue distribution at roughly the same level as in 2007-09. The rolling average is to avoid substantial variations in distribution from year to year. A condition is that there are sufficient earnings to make the 5% distribution.

State School Fund and Local Revenue

Combined State School Fund and local revenue make up most of a school's entire general operating revenue. Statewide, this formula revenue for school district operations will be about 3.4% higher in 2009-11 than in the prior biennium. This combined growth rate is higher than the State School Fund growth rate because the expected local revenue growth rate exceeds the State School Fund rate. Note that the School Improvement Fund in 2007-09 is excluded from this comparison. With the School Improvement Fund and the School Days Restoration Fund included in 2007-09, the funding level between the two biennia is about the same.

With the K-12 and ESD allocation formulas effectively distributing both State School Fund and local funds, the next table shows the estimated combined state and local allocations. These combined allocations are based on local revenue estimates as of the close of the 2009 session. The ESD share is 4.75% with the other 95.25% for school districts.

Local Revenue Above K-12 Formula Typically two or three school districts have local revenue above their formula allocation. The amount is initially included as local revenue in the equalization formula. After determining the equalization level, excess local revenue is excluded from local revenue. The excess is not recaptured for redistribution to other districts and thus not equalized.

State School Fund And Local Formula Revenue			
	2009-10	2010-11	Biennium
K-12 School			
Special programs/grants	\$ 1.2	\$ 1.2	\$ 2.4
Small High Schools	2.5	2.5	5.0
State Special Education	9.8	9.8	19.6
School Equalization Formula	4,211.2	4,323.4	8,534.6
Formula Percent Increase	1.9%	2.7%	3.5%
Local Revenue above Formula	5.0	5.5	10.5
ESD			
Equalization Allocation	209.7	215.3	425.0
Allocation Percent Increase	1.8%	2.7%	3.4%
10 th grade assessment testing	0.5	0.6	1.1
Total	\$4,439.9	\$4,558.2	\$8,998.1
Dollars in millions. K-12 includes youth corrections and juvenile detention education programs. End of session local revenue estimates.			

Revenue Cap

The 2009 Legislature did not put a cap on school formula revenue. Only the 2001 Legislature capped the allocation from the State School Fund and local revenue. With an overall cap, if local revenue came in above estimates, state aid decreased to keep the combination under the cap. The 2001 caps were not exceeded given the impact of economic conditions on revenue.

Additional K-12 School Funding

The 2009 Legislature made minor special allocations to K-12 schools outside the State School Fund. State revenue is sometimes allocated to the School Improvement Fund. This fund is primarily for school district use to make improvements to meet quality education goals. Additional funding is for equalizing local option property tax revenue. Although the Legislature makes other categorical grants to schools, these are included here for comparison because,

when funded, they have been part of the school revenue package in recent biennia.

Additional K-12 and ESD State Funding			
	09-10	10-11	Biennium
School Improvement Fund			
K-12 Schools	\$ 0	\$ 0	\$ 0
ESDs	<u>0</u>	<u>0</u>	<u>0</u>
Total Improvement Fund	\$ 0	\$ 0	\$ 0
Local Option Equalization	0.7	0.7	1.4
Dollars in millions.			

School Improvement Fund

The 2009 Legislature did not make an appropriation to the School Improvement Fund from the General Fund. The 2007 Legislature did appropriate revenue which was the first use

of the fund since 2001-02. ESDs have received a 4.75% share of the fund since 2007-08.

The 2007 Legislature approved a \$260 million General Fund appropriation to the Department of Education for the School Improvement Fund, but only \$251.3 million was distributed after reductions due to the impact of the recession on General Fund revenue. The remainder for 2008-09 was rescinded to help rebalance the budget. Due to budget constraints, the 2003 and 2005 Legislatures did not fund the School Improvement Fund.

When funds are available, school districts and ESDs may apply for this revenue. The Department of Education has to evaluate the progress of district programs and report findings to the Legislature. Each district's share of funds is its proportionate share of current year extended average daily membership weighted (ADMw). Youth Correction and Juvenile Detention Education Program students are also eligible. Districts may transfer a portion of their grant to charter schools within the district.

Local Option Property Tax

The Legislature did not change the amount of local option property taxes that can be raised by districts with voter approval and without reducing school formula revenue. The per student limit was set at \$1,000 per weighted student for 2007-08 and is indexed at 3% per year thereafter. The 2009-10 limit is \$1,061 per weighted student. The percent of revenue limit is 20% of school equalization formula revenue. If a district's local option property taxes exceed the lesser of these two limits, the excess local option tax is included in the district's formula local revenue which reduces state aid to the district by the amount of the excess local option tax.

The Legislature appropriated up to \$1.4 million for the equalization of school local option property taxes with an additional \$900,000 set aside for use by the Emergency Board if needed. Only school districts levying a local option property tax may qualify. Local option districts with assessed value per student less than the target district are eligible. The target district assessed value per student is set so that 25% of the districts are above the target and 75% are at or below the target.

The district equalization grant provides funding as though the district has assessed value per student at the target level. The grant is equal to the number of students times the local option tax rate times the difference between the target value per student and the district assessed value per student. The grant calculation uses prior year tax data. If voters approve a local option during a biennium, the eligible district does not receive a grant payment until the succeeding biennium. Grants are proportionally reduced if appropriated funds are insufficient. Estimated grants are paid by March 31 each fiscal year with subsequent corrections as needed.

Construction Tax Authority

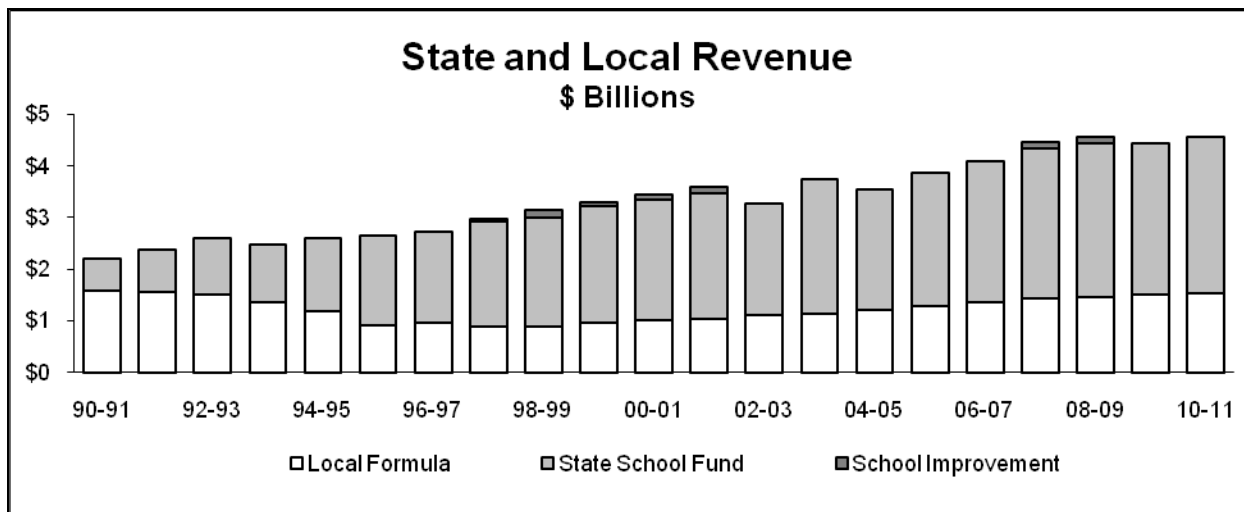
The 2009 Legislature modified the school district construction tax authority adopted by the 2007 Legislature.

The 2007 legislation allowed school districts to impose a tax on new construction in the district. The tax rate cannot exceed \$1 per square foot for residential use and \$0.50 for nonresidential use. The maximum rates are indexed beginning in 2009. The tax on nonresidential use is also restricted to \$25,000 per structure or building permit, whichever is less. The legislation exempts affordable housing, public buildings, agricultural buildings, hospitals, private schools and religious facilities.

The 2009 legislation made several changes. Government entities are now required to collect construction taxes imposed by a school district. A government entity was expanded to include a state agency or official that issues a permit for structural improvements. Exempt construction was broadened to include construction of nonprofit long term and residential care facilities and nonprofit continuing care retirement communities. The maximum administrative collection fee allowed increases from 1 percent to 4 percent of tax revenue. The legislation also clarifies that collection is to be at the time a permit is issued to increase square footage.

Recent Funding History

The chart shows combined State School Fund and local formula revenue of school districts and education service districts since 1990-91. Also included is School Improvement Fund revenue and its predecessors. The State School Fund includes federal stimulus dollars and school day restoration dollars for 2008-09. Note that the data for the last three years are estimates and that the early years are adjusted to be historically comparable as school finance legislation changed. The chart is not adjusted for inflation or student growth.



In 1990 voters approved Ballot Measure 5 that altered the state-local finance structure. Measure 5 phased in property tax limits that substantially reduced local property taxes for schools. Consequently the 1991 Legislature increased state funding and passed a new school equalization formula. By the end of the 5 year tax limit phase-in, the state primarily funded the school system and virtually eliminated local control over school funding levels.

Voter approval of Measure 50 during the 1997 Legislative Session continued the shift to state funding. Measure 50 (a rewrite of Measure 47 passed just prior to the Session) added another property tax limit more restrictive than Measure 5. In response, the 1997 Legislature raised the level of state funding even higher and further modified the school equalization formula. State funding, less than 30% of school general operating revenue in 1990-91, increased to about 70% in 1997-98. It has remained at about this level since then except for 2002-03 and 2004-05.

The chart demonstrates how Oregon has moved to a state-funded school system. Measure 5 and Measure 50 property tax cuts reduced the local share by more than half. A dramatic increase in state school aid over this period accomplished a shift to primarily state funding. In 1989-91, 25% of General Fund and lottery revenue went to K-12 schools and ESDs. In 2009-11, the estimated share is about 41% of GF and lottery anticipated resources with the inclusion of federal stimulus dollars and the \$200 million trigger revenue. The Education Stability Fund was used to augment State School Fund dollars in 2003-05 and 2007-09 when General Fund revenue shortfalls forced reduced appropriations to the State School Fund.

K-12 School and ESD Allocation

K-12 School Equalization Formula

School district state and local formula revenue continues to be the sum of four individual grants. The 2009 Legislature made minor changes to the school distribution formula. Attention was primarily focused on the transportation grant. In recent sessions legislation tended to concentrate on adding and modifying the facility grant and the high cost disability grant.

$$\begin{array}{|c|} \hline \text{District Formula Revenue} \\ \text{(State and Local)} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{General} \\ \text{Purpose Grant} \\ \hline \end{array} + \begin{array}{|c|} \hline \text{Transportation} \\ \text{Grant} \\ \hline \end{array} + \begin{array}{|c|} \hline \text{High Cost} \\ \text{Disability Grant} \\ \hline \end{array} + \begin{array}{|c|} \hline \text{Facility} \\ \text{Grant} \\ \hline \end{array}$$

General Purpose Grant

The 2009 Legislature made a minor change the general purpose grant. The general purpose grant primarily uses a district weighted student count for distribution. Weights are added to districts with small schools. Small schools have to meet certain criteria to qualify. One is to be an eligible small school as of a given date. Small high schools had to qualify as small on October 23, 1991. This date was changed to July 1, 2009. However, small high schools as of this date in the same city resulting from the division of a larger high school do not qualify. The equalization formula section below includes a brief description.

Transportation Grant

Legislation expanded approved school transportation costs included in the formula transportation grant. Costs to retrofit or replace aging diesel powered buses to reduce or eliminate diesel engines emissions now qualify. These diesel costs funded with federal dollars in the Clean Diesel Engine Fund are now eligible. However costs paid with money deposited by the state into the Clean Diesel Engine Fund does not qualify.

Based on an interim study, a proposed change in the calculation of the transportation grant to a statistical model with the goal of improving transportation efficiency was not adopted. Also a proposed decrease in the percent of transportation costs included in the transportation grant was not successful. The equalization formula section below includes a brief description.

High Cost Disability Grant

The 2009 Legislature kept the \$18 million per year grant limit for the high cost disability grant. The 2007 Legislature had increased the grant limit from \$12 million to \$18 million per year. If the grant is less than \$18 million, the difference is distributed as a general purpose grant.

A district's high cost disability grant is the sum of the approved disability costs for each special education student that exceeds \$30,000 per year. The school district can add ESD special education costs incurred for the same student for the student's total special education cost.

High Cost Disability Grant	=	Up to Sum of Costs above \$30,000 per Disability Student
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Based on recommendations of a 2001 interim special education task force, the 2003 Legislature adopted a cap on the costs paid by the districts that were not taken into account by the existing formula. Districts would continue to receive formula revenue based on a double weight and have to pay costs exceeding that revenue up to \$25,000 per special education student. Costs in excess of \$25,000 were eligible for reimbursement. The Legislature initially decided to cap high cost disability grants at \$12 million per year. If eligible costs exceeded \$12 million, the grants were proportionally reduced to total \$12 million. The analogy was an insurance policy where all districts should pay and a few collect.

The 2005 Legislature chose to increase the student cost threshold for a high cost student to be eligible. Legislation increased the initial \$25,000 threshold to \$30,000. This reduced the expected number of eligible students by about half.

Facility Grant

The 2009 Legislature did not make any changes to the facility grant. Beginning in 2007-09 the grant total cannot exceed \$25 million per biennium and is prorated down if eligible construction costs exceed \$25 million in a biennium. The 2005 Legislature increased the limit for the total of district facility grants from \$17.5 million in 2005-07 to the existing \$25 million starting in 2007-09. The grant is prorated down if eligible costs exceeded the \$25 million limit. Eligible costs

Facility Grant	=	Up to 8% of Construction Costs
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have consistently exceeded the grant limit. But with the limit the typical effective rate is roughly 4% of construction costs. Costs vary with the

timing of bond approvals and spending of available funds. Eligible construction costs are for new school buildings excluding land. New buildings include additions and portable classrooms, but exclude buildings not used for some classes such as a central administration building.

The 1997 Legislature established the facility grant, but delayed implementation until 1999-00. The grant is for costs to equip and furnish a facility and cannot be used for construction costs. This was partly in response to 1996 Measure 47 (included in Measure 50) that limited construction costs that could be bonded to those that are intrinsic to the structure.

Equalization Formula Summary

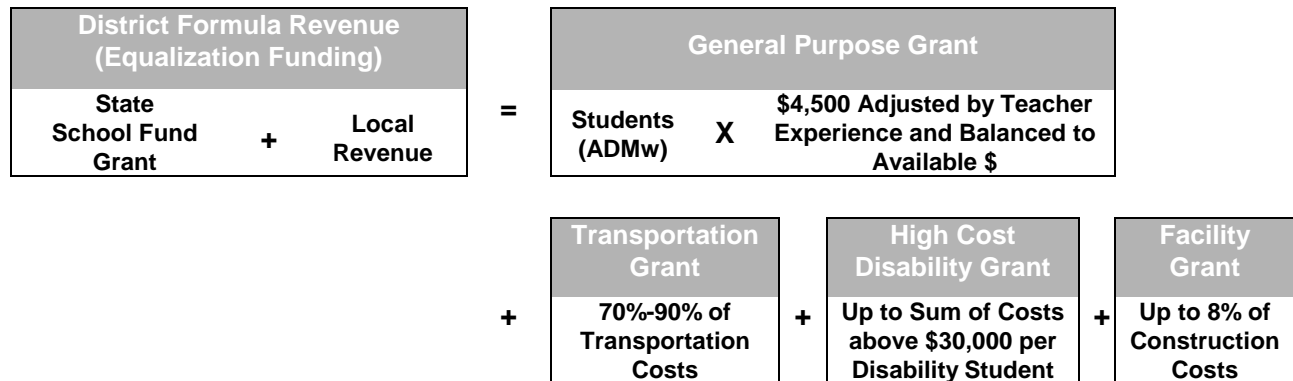
School District Equalization

The K-12 school equalization formula allocates most state and local operating revenue available to local school districts. Local revenue stays with the district where collected, but is treated like a state resource. The combination of state and local revenue equals a measured financial need. The formula does make a facility grant, but does not allocate any other capital resources. The formula also does not allocate state and federal categorical aid. These funds are dedicated to specific programs and cannot be used for general purposes.

The K-12 school distribution formula allocates funds based largely on a per student basis. For purposes of the formula, "student" means weighted average daily membership (ADMw) extended. Weighting means counting a higher cost student as more than one and extended means the higher of the current year or prior year ADMw.

The formula includes four grant calculations for each district. These are a general purpose grant, a transportation grant, a high cost disability grant and a facility grant. For a more complete description of the formula pre-2007 changes, see Research Report 4-06

K-12 SCHOOL EQUALIZATION FORMULA



State aid is State School Fund money available for distribution to school districts. Local revenue includes property taxes, County School Fund, Common School Fund and a few other sources.

The general purpose grant is the equalizer that makes the sum of the four grants equal available state and local formula revenue. The general purpose grant starts at a \$4,500 target per weighted student. Applying the teacher experience factor increases or decreases the \$4,500 per student target by \$25 for each year the district average experience is more or less than the statewide average teacher experience. A calculated percentage adjustment factor (currently about 135%) modifies the adjusted target amount to allocate the full state and local funds available. The grant accounts for about 95% of formula revenue. Thus number of students and their associated weights are a very important determinate of district formula revenue. There are no constraints on how this money can be spent.

The transportation grant is a 70% to 90% 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% have 90% grants. Districts ranked in the next lower 10% have 80% grants and the bottom 80% of districts has 70% grants. Transportation grants are about 4% of equalization formula revenue.

The high cost disability grant is initially the sum of the costs above \$30,000 for each student with disabilities. ESD costs for each student can be included in the total. The total grants for all districts cannot exceed \$18 million per year. If eligible costs exceed \$18 million, grants are prorated down to sum up to \$18 million. The high cost disability grant in the formula reduces the general purpose grant total by the same amount. Thus all districts share in the cost and those with high cost disabilities benefit when their high cost disability grant exceeds the reduction in their general purpose grant.

The facility grant is up to 8% of the construction costs for new classrooms, but is subject to a biennial limit of \$25 million. The grant is for classroom equipment that cannot be included in bonded debt. If eligible facility grants exceed the biennial limit, grants are prorated down to be less than 8% of construction costs.

ESD Equalization

State School Fund dollars for ESDs would have been allocated among fewer ESDs if an attempt to merge ESDs in the 2009 legislative session had succeeded. The main proposal was to reconfigure 14 ESDs into 7 new ESDs while maintaining 6 existing ESDs. The general intent was to improve administrative efficiency.

The 2009 Legislature retained the ESD structure and maintained the ESD share of state and local funding available for schools and ESDs at 4.75%. The ESD percentage share had been as high as 5%, but is back to what it was in 2003-04. Out of the 4.75%, the Legislature authorized up to \$550,000 per year to be used for 10th grade assessment testing during 2009-11. Minimum funding level per ESD stays at \$1 million.

Allocation Formula

$$\boxed{\text{Base Revenue}} = \boxed{4.987\%} \times \boxed{\text{Sum of Component School District Revenue}}$$

ESD base revenue is 4.987% times the sum of the school formula revenue for the ESD component school districts. With the ESD total state and local share set at 4.75%, the ESD percent applied to the school district 95.25% must be more than 4.75% ($4.987\% \times 95.25\% = 4.75\%$).

The district minimum allocation is \$1 million. If the base revenue allocation is initially less than \$1 million, the base is increased to the \$1 million minimum. The statewide base total is then more than funds available, so the base for districts above \$1 million is proportionately reduced by a percent slightly less than 100%. In 2009-10 the reduction will also have to include up to \$550,000 per year for 10th grade assessment testing. This makes allocated funds equal to available funding.

State and Local Revenue	=	Higher of (1) Base Revenue X Percent to Balance (2) \$1 million
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If an ESD's local revenue is greater than its general services revenue, then the State School Fund grant is zero. Any local revenue in excess of the allocation is distributed to component districts proportional to ADMw (extended) and is included as local revenue for them in the school formula the following year.

ESDs in their role of assisting component school districts are assumed to have the same relative need for funds as their component school districts. Thus the financial need of ESDs is proportional to the needs of their component school districts (except for the \$1 million minimum) and should depend on the same factors used for school district equalization. The K-12 school equalization formula is essentially the adopted definition of equity for both school districts and ESDs.

RELATED REPORTS

The following reports deal with recent school finance legislation and research in more detail. The summaries are a condensed overview of the K-12 equalization formula and ESD allocation. Reports are also available for the 1997, 1999 and 2001 legislative sessions.

"Small School District Funding," Research Report #4-08

"Student Weights for Small Schools," Research Report #3-08

"2007 School Finance Legislation: Funding and Distribution," Research Report #4-07

"Student Weights: Individualized Education Program," Research Report 7-06

"Student Weights: English as a Second Language," Research Report 2-06

"K-12 and ESD School Finance: State School Fund Distribution," Research Report #4-06

"2005 School Finance Legislation: Funding and Distribution," Research Report #3-05

"K-12 and ESD School Finance: State School Fund Distribution," Research Report #3-04

"2003 School Finance Legislation: Funding and Distribution," Research Report #7-03

"K-12 School Equalization Formula: State School Fund," two page summary

"ESD Equalization: State School Fund," one page summary

"School Local Option Property Tax: Legislation and Utilization," Research Report #4-04

"The Education Stability Fund," Research Report #5-04