



2001 SCHOOL FINANCE LEGISLATION

Funding and Distribution

RESEARCH REPORT # 3-01

October 2001

Legislative Revenue Office

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STATE OF OREGON

LEGISLATIVE REVENUE OFFICE

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INTRODUCTION

This report describes legislation affecting Oregon's school finance system that the Legislature passed in the 2001 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 funds.

School finance legislation in the 2001 regular session focused on two issues: the level of state school funding and the equalization of Education Service District (ESD) per student revenue. The Legislature adopted a school finance package of \$5.2 billion that was comparable to the Governor's proposed budget. The Legislature passed a phase-in approach to equalizing ESD per student revenue that is based on the K-12 equalization formula. Another issue was additional funding for small high schools. Small districts with small high schools gained extra funding per high school student. Other attempts to change the K-12 equalization formula to benefit rural, declining enrollment and high growth districts were unsuccessful.

The 2001 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, less than 30% of school general operating revenue in 1990-91, increased to about 70% in 1998-99 and has remained at about this level since then.

The first section of this report summarizes state appropriations and local revenue estimates for 2001-03. The second section describes the phase-in of financial equalization for Education Service Districts (ESDs). The last section reports on a change in the students included in the K-12 equalization formula and a brief description of this formula.

K-12 AND ESD FUNDING

State School Fund Appropriation

State School Fund Sources			
	2001-02	2002-03	Biennium
General Fund	\$2,224.4	\$2,335.9	\$4,560.3
Lottery	140.7	147.7	288.4
Medicaid Upper Limit	48.4	50.8	99.2
Private Timber	<u>15.6</u>	<u>8.1</u>	<u>23.7</u>
Total	2,429.1	2,542.5	4,971.6
Percent Increase	3.9%	4.7%	8.5%
Dollars in millions			

The 2001 Legislature appropriated \$4.971 billion to the State School Fund (SSF) for state aid to both K-12 school districts and Education Service Districts (ESDs). The biennial appropriation is in HB 5514. The table at right summarizes the results of this bill. About 91.7% is from the General Fund and 5.8% from lottery funds. The appropriation for 2001-03 grew by 8.5%. The percentage growth comparison is after adjusting the 1999-01 State

School Fund appropriation for Emergency Board additions during the interim. Without these E-Board additions, the 2001-03 growth rate would be 9%.

State School Fund Allocation

The State School Fund is divided up into six separate programs. The table below shows the 2001-03 allocations. The ESD share is 3.9% and the school district share is 95.6%. ESD and K-12 local revenue are in addition to the state funds shown here.

State School Fund dollars were not used to support the Oregon Public Education Network (OPEN). This biennium the Department of Education budget included funding for OPEN.

State School Fund Allocation			
	2001-02	2002-03	Biennium
ESD			
Equalization Formula	\$ 94.4	\$ 97.8	\$ 192.2
K-12 School			
Small High Schools	4.5	4.5	9.0
Special Education Study	0.1	0.1	0.2
State Special Education	7.1	7.5	14.6
Disabled Out-of-State	0.4	0.4	0.8
Placement			
School Equalization Formula	2,322.6	2,432.2	4,754.8
Total	2,429.1	2,542.5	4,971.6
Dollars in millions;			

The ESD and school equalization formulas are described later. The other allocations are described briefly here.

Small High Schools

SB 519 creates a Small School District Supplement Fund and transfers \$9 million (\$4.5 million per year) from the State School Fund to the Small School Fund in 2001-03. 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. An estimated 94 school districts with 99 small high schools will qualify.

Each small school district receives \$200 per high school ADM (average daily membership) each year of the biennium. The Small School Fund remainder of about \$1.5 million per year is for need grants. Districts must apply for need grants. Need grant criteria includes district size, declining enrollment, staffing ratios, ending balance and ESD resources. Any residual after need grants goes to increase the \$200 per ADM.

Special Education Study

SB 519 allows the Department of Education to spend up to \$150,000 of the State School Fund for a review of special education services and funding. The Department is to make recommendations to interim committees prior to October 1, 2002.

State Special Education

SB 253 shifts Department of Education billing for certain special education students from the County School Fund to the State School Fund. This transfer applies to existing state education programs in institutions like hospitals and long term care facilities.

County School Fund dollars available for distribution to school districts increases an estimated \$7 plus million per year. State School Fund dollars available for distribution to school districts decreases by the same amount. The school equalization formula will reduce the distribution of State School Fund dollars to affected districts by an amount equal to their increased County School Fund payment.

Disabled Out-of-State Placement

SB 5514 allocates \$800,000 (\$400,000 per year) from the State School Fund to the Out-of-State Disabilities Placement Education Fund. This continues a policy started in 1997. Districts with disabled students in facilities in other states may qualify for grants. These districts can apply for reimbursement for costs in excess of twice the district allocation (excluding transportation) for these students (four times unweighted allocation). If reimbursement claims exceed the amount in the fund, grants are prorated.

Local Formula Revenue

The table shows estimated local funding of K-12 school and ESD operations. Local revenue is the amount from sources included in the equalization formula by statute. Local revenue is still a significant source of funding even with Measure 50. It is about 30% of state and local funding.

Local revenue is about 40.3% of ESD and 29.5% of school formula revenue. Local revenue stays in the district where collected. However, local revenue is treated as a statewide resource for equalization purposes.

Local Formula Revenue Estimates			
	2001-02	2002-03	Biennium
ESD	\$ 63.1	\$ 66.8	\$129.9
Percent Increase	6.6%	5.8%	11.2%
K-12	997.4	1,048.4	2,045.8
Portland PERS and Desegregation	<u>-19.9</u>	<u>-20.1</u>	<u>-40.0</u>
Net	977.5	1,028.3	2,005.8
Percent Increase	4.5%	5.2%	8.7%

Dollars in millions.

ESD local revenue is from two sources. The major source is property taxes collected by districts including taxes owed for prior years. 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.

In the K-12 equalization formula local revenue is mostly property taxes but also includes Common School Fund, County School Fund, state managed county timber trust land and other minor sources. Local revenue having a state or county source is local in the sense that payment to schools is mandatory. The 2001 Legislature made no changes to K-12 local revenue sources, but the amount anticipated from two sources changed significantly.

County School Fund

The County School Fund includes the additional school revenue Congress granted states as federal timber replacement revenue in the Secure Rural Schools and Community Self-Determination Act of 2000. This increased the County School Fund revenue about \$29 million for the biennium. SB 486 clarifies 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.

Common School Fund

The revenue estimate anticipates that the State Land Board will not change its distribution policy and that no special distribution of \$50 million will be made as in 1999-01. The estimate also assumes earnings will be at a level such that only the first 4% will be available for distribution.

State School Fund and Local Revenue

Combined State School Fund and local revenue makes up almost a school's entire general operating revenue. Statewide, this formula revenue for operations will be about 8.2% higher in 2001-03 than in the prior biennium. Because the K-12 and ESD allocation formulas effectively distribute both State School Fund and local funds, the table shows the estimated combined state and local allocations. These combined allocations are based on local revenue estimates as of the close of the 2001 session. The ESD share is 4.5% with the other 95.5% primarily for school districts.

Local Revenue Above K-12 Formula

Typically one or two school districts have had local revenue above their formula allocation. This excess local revenue is not recaptured. 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			
	2001-02	2002-03	Biennium
ESD			
Equalization Formula	\$157.5	\$164.6	\$322.1
Formula Percent Increase	6.1%	4.5%	8.4%
K-12 School			
Small High Schools	4.5	4.5	9.0
State Special Education	7.1	7.5	14.6
Special Education Study	0.1	0.1	0.2
Disabled Out-of-State Placement	0.4	0.4	0.8
School Equalization Formula	3,298.1	3,458.5	6,756.6
Formula Percent Increase	3.6%	4.9%	8.2%
Local Revenue above Formula	2.0	2.0	4.0
Total	3,469.7	3,637.6	7,107.3
Dollars in millions; K-12 includes youth corrections and juvenile detention education programs. End of session local revenue estimates.			

Revenue Cap

For 2001-03, the Legislature capped the allocation from the State School Fund and local revenue based on the close of session local revenue estimates. The cap is 2% higher than estimated local revenue for a 2% margin of error. This allows local revenue to be 102% of estimates before the cap applies to State School Fund and local revenue. SB 5514 caps total state and local formula revenue for school district operations to \$3,326.8 million in 2001-02 and \$3,488.6 million in 2002-03. The cap for ESDs is \$158.8 million in 2001-02 and \$165.9 million in 2002-03.

If increased local revenue causes the combined allocation to exceed the cap, the State School Fund amount is reduced to stay within the yearly limits. Any excess State School Fund dollars in 2001-02 can be used to make up for any local revenue shortfall in 2002-03 up to the local estimate, not to 102% of the estimate. If excess State School Fund dollars are not used up in 2002-03, they are carried forward to the next biennium.

Additional K-12 Funding

The 2001 Legislature also made special allocations to K-12 schools outside the State School Fund. These special allocations were primarily for improvements to meet quality education goals. Although the Legislature makes other categorical grants to schools, these two are included here because they were part of the school funding package adopted by the legislature.

School Improvement Fund

In SB 5513 the Legislature approved a \$220 million General Fund appropriation to the Department of Education for the School Improvement Fund.

Additional K-12 State Funding			
	01-02	02-03	Biennium
School Improvement Fund	\$108.0	\$112.0	\$220.0
Local Option Equalization	0.3	0.3	0.6
Total	108.3	112.3	220.6
Dollars in millions.			

HB 2298 creates the School Improvement Fund and specifies its distribution. Schools are to use the funds for activities that increase student achievement. In 2001-03 and 2003-05 funds can only be used for activities

that relate to improved 3rd and 5th grade reading and math. However the bill makes an exception if a district is achieving or making significant progress toward benchmarks. School districts must apply for funds and the Department of Education has to evaluate district progress.

Each district's share of funds is its proportionate share of current year extended average daily membership weighted (ADMw). Youth Corrections Education Program and Juvenile Detention Education students are eligible. Districts may transfer a portion of their grant to charter schools within the district.

Local Option Equalization

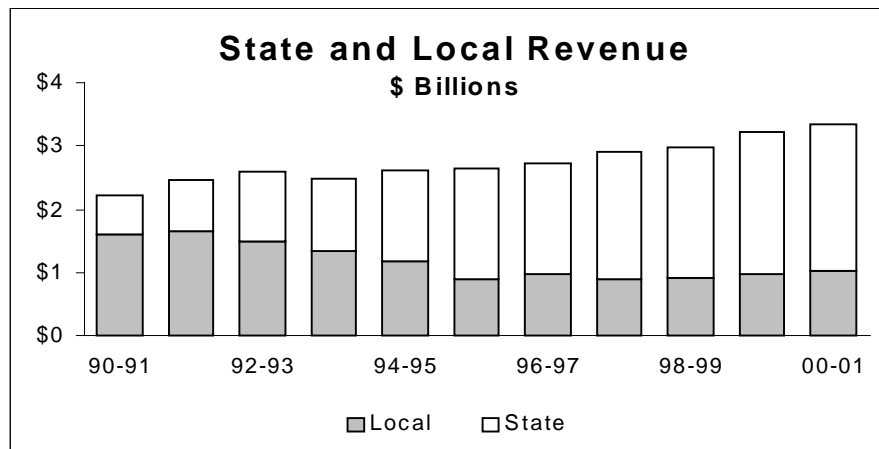
In HB 2300 the Legislature creates a local option equalization grant for eligible school districts levying a local option property tax. Local option districts with assessed value per student less than the target district are eligible. The target district assessed value per student is set at the 75th percentile.

The district equalization 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 data. If voters approve a local option during a biennium, the eligible district does not receive a grant payment until the succeeding biennium.

The bill establishes a Local Option Equalization Grants Account and funds it with a \$600,000 General Fund appropriation. Grants are proportionally reduced if the Account has insufficient funds. Estimated grants are paid by March 31 each fiscal year with subsequent corrections.

Recent Funding History

The chart shows combined state and local formula revenue of schools since 1990-91.



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 1998-99 and has remained at about this level since then.

The chart demonstrates how Oregon has moved to a state-funded school system. Before Measure 5, the state provided 30% of local school funding. By 1997-98, it provided 70%. Measure 5 and Measure 50 property tax cuts and a dramatic increase in state school aid accomplished this shift. In 1989-91, 25% of General Fund and lottery expenditures went to K-12 schools and ESDs. In 2001-03, this share will be up to 40.5% without and 42.3% with the School Improvement Fund. Additional State School Fund dollars come from the Other Funds category in 2001-03.

ESD EQUALIZATION FORMULA PHASE-IN

ESD Equalization

The 2001 Legislature passed ESD revenue equalization legislation in SB 260. ESDs began receiving State School Fund dollars after 1990's Measure 5 to help compensate for property tax cuts. However, the issue of an imbalance in state and local revenue per student among ESDs was not initially addressed. It was delayed until after the equalization of school district revenue.

K-12 and ESD Equity

Defining permanent ESD equalization is a two step process. The first step is defining equity between ESDs and K-12 school districts. The 1999 interim Legislative Task Force on ESDs recommended a permanent split of total state and local revenue available for allocation between K-12 school districts and ESDs. The Legislature adopted the recommendation for a split of 5% for ESDs and 95% for school districts when fully phased-in.

Year	K-12 Share Of Total	ESD Share Of Total
2001-02	95.34%	4.66%
2002-03	95.36%	4.64%
2003-04	95.25%	4.75%
2004-05	95.15%	4.85%
2005-06	95.00%	5.00%

The table lists the proposed path to 5% for ESDs under the heading "ESD Share of Total". This increases the ESD share from about 4.6% in 2001-02 to 5% in 2005-06. Attaining the percentage shares during phase-in depends on the accuracy of local revenue estimates for ESDs and school districts and the split of the State School Fund between ESDs and school districts.

Equalization Definition

The second step is to define ESD equalization. How should the ESD portion of the total be divided up among the 21 ESDs? The interim task force recommendation was to piggy-back ESD equalization onto K-12 equalization. K-12 equalization as defined by the K-12 school formula takes into account several different measures of school financial needs. Recognizing that ESDs are support districts for school districts, the task force recommended that ESD equalization be measured by the K-12 equalization formula rather than develop a separate ESD equalization formula. Its recommendation was to make ESD funding a percent of the K-12 equalization formula revenue of the school districts in the ESD. The Legislature adopted this recommendation.

ESDs and School Districts

ESDs are distinct from school districts, but territorially are made up of school districts. The school districts within the boundary of an ESD are the ESD's component school districts. The student count for an ESD is the sum of students in its component school districts. Likewise,

the extended average daily membership weighted (ADMw) of an ESD is the sum of this measure for the ESD's component districts.

Equalization Phase-in

The ESD task force recommended a phase-in period of 5 years with final equalization beginning in 2006-07. The Legislature adopted a 4-year phase-in with final equalization beginning in 2005-06. Revenue per student of low funded districts gradually increases toward the equalization target. Revenue per student of high funded districts gradually decreases toward the equalization target. The intent is to allow time for planning additional services if revenue increases and to reduce disruption to ESD funded services if revenue decreases.

To determine the ESD allocation during the phase-in period, the revenue base, equalization target and gap amounts must be calculated first. Then using these the allocation is calculated using certain constraints.

Revenue Base

The revenue base is both State School Fund and local revenue. It is calculated using prior year students and revenue. The base is the greater of (1) prior year revenue or (2) prior year revenue per weighted student times current year weighted students. For example, the 2001-02 base is the greater of (1) 2000-01 revenue or (2) 2000-01 revenue per weighted student times 2001-02 weighted students. The base for districts with declining enrollment is generally prior year revenue. The base for districts with growing enrollment is generally last year's revenue per weighted student times this year's weighted students.

Equalization Target

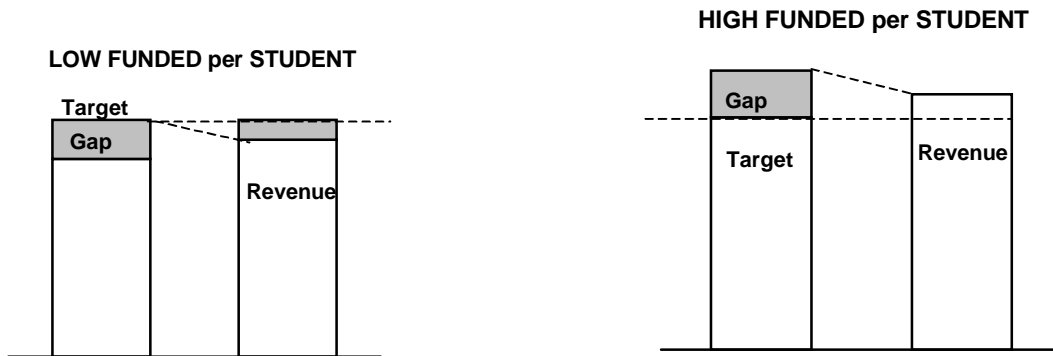
The equalization target for an ESD is a percent of the calculated K-12 formula revenue for component districts. The first step is to take the K-12 percent of the total state and local revenue available for school districts and ESDs. The next step is to allocate this K-12 amount to school districts using the K-12 formula. Next take the ESD percent of K-12 revenue for each component district. The ESD equalization target is the sum of the ESD share of its component district's revenue.

The equalization target is a phased-in level to the final equalization amount. The percent is phased-in to gradually increase to the equivalent of 5% of total revenue. For example, in 2001-02 the ESD share is 4.66% of the total or its equivalent of 4.888% of the school district's 95.34% share. Phased-in equalization in 2001-02 would mean each ESD receives 4.888% of its component school districts' calculated revenue allocation. The 2001-02 revenue target for an ESD is this equalization amount. The target percentage changes during the phase-in as the ESD percent (see table) of the K-12 component school district revenue increases.

Year	ESD Share Of Total	ESD Share Of K-12
2001-02	4.66%	4.888%
2002-03	4.64%	4.866%
2003-04	4.75%	4.987%
2004-05	4.85%	5.097%

Revenue Gap

The revenue gap for each ESD is the difference between its revenue target and its revenue base. If the target is greater than the base, the ESD is currently a low funded ESD whose revenue allocation increases during the phase-in. If the base is greater than the target, the ESD is currently a high funded ESD whose revenue allocation decreases during the phase-in.



Base Adjustment

The base adjustment moves the revenue base toward the target to reduce the gap. For low funded ESDs, the target is above its base so the adjustment increases the base by adding to the base during phase-in. For high funded ESDs, the base is greater than its target so the adjustment decreases the base.

The amount of adjustment is a percent of the gap. The percent is different for low funded and high funded ESDs.

For high funded ESDs, revenue is the base decreased by a percent of the gap. The decrease in the gap is designed to be 20% per year if the initial base did not change. However a new base is established each year at a lower level which reduces the gap. Thus the percent of the new smaller gap increases during the phase-in. Refer to the table. The amount of adjustment is limited in the 2001-03. If weighted students for the ESD is greater than 2,500, the adjustment decrease cannot exceed 5% of the base. This limits the exposure of a large ESD with a wide gap like Multnomah. If weighted students is less than 2,500, the adjustment decrease cannot exceed the lessor of 4% of the base or an amount yielding the same prior year revenue per weighted student. This limits the exposure of a small ESD with a wide gap like North Central.

High Funded ESDs	
Year	Gap Percent
2001-02	20.00%
2002-03	25.00%
2003-04	33.33%
2004-05	50.00%
2005-06	No gap

For low funded ESDs, revenue is the base plus a percent of the gap. The percent depends on the residual ESD state and local funds available for allocation. The percent has to be

calculated each year. There are no limits or constraints. The estimated addition to the base is about 29% of the gap in 2001-02.

General Services Revenue

General service revenue is initially the revenue base increased or decreased by the base adjustment. This is the amount of State School Fund and local revenue allocated to each ESD. However, revenue must be at least a minimum amount for ESDs with fewer than 2,500 weighted students in 2001-05. The ESD minimum begins at \$700,000 in 2001-02 and phases up to \$1,000,000 in 2005-06. There is no small student size constraint beginning in 2005-06.

Year	\$ Minimum
2001-02	\$ 700,000
2002-03	750,000
2003-04	800,000
2004-05	900,000
2005-06	1,000,000

A final percentage adjustment to general service revenue is necessary to make total funds allocated equal to funds available. This slightly reduces the allocation of all ESDs to make revenue available equal revenue allocated including the minimum. The State School Fund distribution to each ESD is simply this final general service revenue less its local revenue.

Phase-in Formula

A general mathematical representation of the formula is as follows:

$$\begin{array}{c}
 \text{General Services Revenue} \\
 \text{State School Fund Grant} + \text{Local Revenue}
 \end{array}
 = \text{Balanced Percent To Balance}
 \times
 \left[
 \begin{array}{c}
 \text{Base Revenue} \\
 \text{Higher (1) prior year \$ or (2) prior year \$ / Student * ADMw}
 \end{array}
 +
 \begin{array}{c}
 \text{Gap Revenue (Base Adjustment)} \\
 \text{Gap Percent X (Target - Base)}
 \end{array}
 +
 \begin{array}{c}
 \text{Minimum Revenue} \\
 \text{Extra \$ if Below Minimum}
 \end{array}
 \right]$$

Final Equalization

Final equalization begins in 2005-06 after 4 years of phase-in. Final equalization is simpler to calculate because there is no base or gap amounts. However, it still involves several steps just like calculating the target. The first step to allocate 95% of both K-12 and ESD state and local formula revenue to each school district using the K-12 formula. The second step is to allocate to each ESD 5.263% of its component school districts' allocation and sum by ESD. The third step is to increase any ESD allocation below the minimum to the minimum. The last step is to reduce the revenue of all ESDs by the same percent to rebalance revenue to the 5.263% amount.

Calculating ESD revenue as a percent of school district revenue means the ESD percent of the school share has to be more than 5%. To make the funding for 21 ESDs add up to 5% of the total funds, the ESD percent must be set at 5.263% (5.263% of 95%=5%).

Measuring the Progress of ESD Equity

Much of the per student differences in ESD funding that existed before Measure 5 still exist. What were acceptable differences are now deemed less acceptable. A new measure of fairness has been implemented. "Equity" as a measure of fairness does not necessarily mean that all ESDs get the same funding per student. ESDs like school districts face different problems and costs that may justify different funding levels. Thus defining equity is to some extent a matter of policy about which reasonable people can disagree.

For purposes of this report, the assumption is that the permanent ESD equalization formula beginning in 2005-06 is the legislatively adopted definition of equity. This means 100% equity is achieved if the equalization formula operates without constraints. It also means the K-12 equalization formula factors define ESD "equity". These factors have changed over time and will no doubt be periodically reviewed and revised by future legislatures. For example, the additional small high school student weight and higher new facility grant redefined K-12 equity beginning in 1999-00. Thus "equity" is an evolving target over time, and an analysis of the movement towards "equity" is one snapshot in a moving picture.

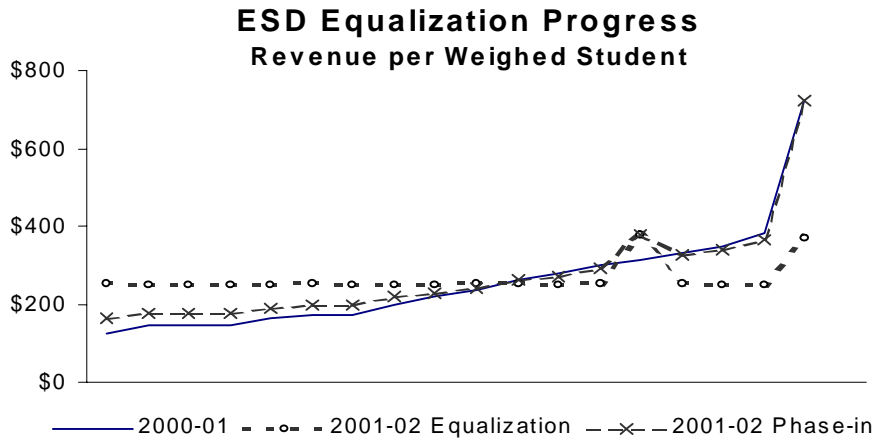
Reduction in Absolute Difference

In 2001-02 the total statewide absolute difference between the estimated distribution and the equalization formula is about \$42.7 million. This is about 26.5% of ESD state and local funds in 2001-02.

In 2002-03 the estimated total absolute difference between the constrained formula and the equalization formula will be less. The difference as a percent of state and local revenue distributed will also be a smaller than in 2001-02. By this method, a percent of the "inequity" that exists in 2001-02 will be measurably decreased.

A Picture of Progress

This graph demonstrates the progress toward equity. ESDs are ordered by estimated 2000-01 revenue per weighted student. The highest funded ESD, North Central, is omitted to limit the vertical scale. Walowa and Grant are omitted because they still share revenue with



component districts in 2001-03 and this complicates the comparison. In 2000-01, the expected funding level will vary from about \$123 per weighted student to over \$2,000 per weighted student.

The solid line labeled "2000-01" is estimated 2000-01 per student revenue. The dot-dash line represents the phased-in equalization amounts per student if implemented in 2001-02. The other "x"-dash line labeled 2001-02 is the phase-in distribution estimate. The vertical distance between the 2001-02 lines represents the amount of equalization to be achieved. The vertical distance between the 2000-01 and 2001-02 lines is the amount of equalization progress made in 2001-02.

The graph also hints at how equity is being achieved over the four-year phase-in. In general, higher revenue districts come down to the target more slowly than lower revenue districts move up to the target.

Finally, note that, except for the impact of district minimums, the equalization line is almost a horizontal straight line. This shows that "equity" is not exactly the same dollar amount per weighted student for all ESDs because K-12 equity per weighted student is not the same for component districts.

K-12 Equalization Formula

The noteworthy result of the 2001 session was not legislation, but the lack of it. The Legislature did not make any structural change to the K-12 equalization formula. 2001-02 is the first year for the formula to be fully implemented without constraints that gave some districts more revenue than their equalization amount. The Legislature also allowed the continued phase-in of additional weight for certain small high schools which passed in 1999.

Juvenile Detention

HB 3619 makes the Department of Education responsible for providing education for students in juvenile detention facilities rather than the resident school district. The Superintendent of Public Instruction must pay education costs in place of the resident school district. Funding for state juvenile education programs comes direct from the State School Fund by including juvenile detention students in the school equalization formula as a state agency category rather than by resident district. The student weight per juvenile average daily membership (ADM) equals 1.5. The funding per weighted student is the school equalization formula General Purpose Grant per weighted student. Juvenile detention ADM cannot exceed 350 per year.

School district ADMw decreases by its weighted number of resident juveniles in detention facilities. Also funds allocated by the school equalization formula to school districts decreases by the amount of the state juvenile allocation. This will likely cause a minor shift of SSF revenue among school districts due to districts having different percentages of detention juveniles. A district's reduced State School Fund revenue may be more or less than its reduced juvenile detention costs.

Equalization Formula

The Legislature did not extend any constraints to the equalization formula. These constraints provided a minimum level of funding higher than the equalization level and were known as flat grants and stop-loss grants. Thus full equalization begins in 2001-02 after ten years of exceptions to full implementation of the equalization formula.

The K-12 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 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. Extended means the higher of the current year or prior year ADMw.

The formula includes three grant calculations for each district. These are a general purpose grant, a transportation grant and a facility grant.

K-12 EQUALIZATION FORMULA

Formula Operating Revenue		=	General Purpose Grant		+	Transportation Grant	+	Facility Grant
State School Fund Grant	+ Local Revenue	=	Students (ADMw)	X \$4,500 Adjusted by Teacher Experience & Balanced to Total \$	+	70% of Transportation Costs	+	Up to 8% of Construction Costs

State aid is State School Fund money available for K-12 distribution. Local revenue includes property taxes, County School Fund, Common School Fund and a few other sources.

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 over 100%) modifies the adjusted target amount to distribute the full state and local funds available.

The transportation grant is a 70% reimbursement of approved student transportation costs. These costs are primarily school bus costs for transport between home and school and class field trips.

The new facility grant is up to 8% of the construction costs for new classrooms, but is subject to a biennial limit of \$17.5 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 at less than 8% of construction costs.

RELATED REPORTS

The following reports deal with recent school finance legislation in more detail. The summaries are a condensed overview of the equalization formulas.

"ESD Equalization Formula Phase-in: State School Fund," one page summary

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

"School Local Property Tax Option: 1999 Legislation," Research Report #5-99

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