



2007 SCHOOL FINANCE LEGISLATION

Funding and Distribution

RESEARCH REPORT # 4-07

August 2007

Legislative Revenue Office

State Capitol Building
900 Court Street NE, H-197
Salem, Oregon 97301
(503) 986-1266

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



STATE OF OREGON

Research Report

LEGISLATIVE REVENUE OFFICE

H-197 State Capitol Building
Salem, Oregon 97301
(503) 986-1266

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

Research Report # 4-07

August 2007

2007 SCHOOL FINANCE LEGISLATION

Funding and Distribution

INTRODUCTION

This report describes legislation affecting Oregon's school finance system that the Legislature passed in the 2007 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 2007 regular session focused on three major issues: the level of state school funding, the state-wide level of high cost special education grants and funding outside of the State School Fund. The Legislature adopted a State School Fund package of \$5.98 billion. Financing of the School Improvement Fund added \$260 million for a total package of \$6.24 billion for the 2007-09 biennium. The Legislature increased the high cost disability grant in the school equalization formula and maintained the facility grant at its previously increased level. There were also changes to the uses for School Improvement Fund grants. Other proposals to modify the K-12 equalization formula to benefit rural, declining enrollment and high growth districts were unsuccessful.

The 2007 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 2007-09 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 2007-09 allocation of state school funds. The ESD allocation is also briefly reviewed.

K-12 AND ESD FUNDING

State School Fund

The 2007 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 budgeted General Fund and state lottery revenue. The biennial appropriation is in HB 5520. The table summarizes the results of this bill. The General Fund portion is 89.4% of

State School Fund Sources			
	2007-08	2008-09	Biennium
General Fund	\$.	\$.	\$ 5,350.4
Lottery			634.1
Private Small Tract Timber			0.2
Total	\$2,914.5	\$3,070.2	\$5,984.7
Percent Increase	6.4%	5.3%	12.8%
Dollars in millions			

the total and lottery funds 10.6%.

The allocation for 2007-09 grew by 12.8%. This is after adjusting the 2005-07 close of regular session adopted budget for two subsequent increases. The 2005 Legislature made \$23 million for 2006-07 conditional on an increase in the June 2006 General Fund revenue forecast by at least that amount. This trigger was met. Also, in the 2006 special session, the Legislature increased the

allocation of lottery funds to the State School Fund for 2006-07 by \$42.2 million in HB 3510.

The total State School Fund expenditure is set for each year of the biennium, but the General Fund and lottery appropriations are for the whole biennium. The annual split for the General Fund and lottery is not specified in the legislation. This change started in 2005. The reason is to allow some flexibility between General Fund and lottery revenue. 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 several separate programs. Previously any uses other than for school districts and ESDs was very limited. The table on the following page shows the estimated 2007-09 allocations. The first 0.5% is for grants and programs funded directly out of the State School Fund. The ESD share is 4.1% and the school district share is 95.4%. The school district and ESD allocations depend on local revenue estimates and use of full funding authority by other programs. School districts and ESDs get specific percentage shares of State School Fund and local revenue after subtracting other special State School Fund uses. The accuracy of local revenue estimates may shift state funds slightly 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.

The Legislature allocated State School Funds to new uses in HB3141. Of the nine designations, only 2 were previously funded from this source—virtual school and older youth correction students. Previously youth correction students older than 21 and/or who had a high school diploma were counted with the other youth correction students in the school formula student count.

State School Fund Allocation			
	2007-08	2008-09	Biennium
Special Programs and Grants (HB3141)			\$ Millions
Oregon virtual school			\$ 1.80
Business practice audits			0.80
Talented and gifted			0.35
Speech-language pathologists			0.15
Physical education data collection			0.14
Physical education grants			0.86
Education system design team staff			0.20
Quality Education Commission staff			0.15
Youth correction ed. program age 21+			<u>5.21</u>
HB3141 Total	\$ 4.8	\$ 4.8	\$ 9.6
K-12 School			
School Equalization Formula	2,780.0	2,930.8	5,710.8
Small High Schools	2.5	2.5	5.0
State Special Education	8.0	8.4	16.4
ESD			
Equalization Allocation	118.8	123.1	241.8
10 th grade assessment testing	0.5	0.6	1.1
Total	\$ 2,914.6	\$ 3,070.1	\$ 5,984.7
Dollars in millions; K-12 includes youth corrections and juvenile detention education programs.			

The bill gives a biennial funding limit. There is no split between the first and second year of the biennium. 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. This may not be the case. Delayed start-ups and the February special session may push funding to the second year of the biennium. However, some projects will need to use their funding prior to the beginning of the 2009 Legislature and may spend more than half of available funding in the first year.

For more information about these grants and projects, refer to the bill and any statutory references and new statutes in the bill for each.

HB2263 also designates a new use of State School Fund dollars. The Legislature allocated up to \$550,000 per year for 10th grade assessment tests. The source is 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 state schools for the deaf and blind. 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 \$16.4 million for the 2007-09 biennium. The total charge is not limited by statute.

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 33% of state and local funding.

Local Formula Revenue Estimates			
	2007-08	2008-09	Biennium
K-12			
Property Taxes	\$1,215.7	\$1,274.0	\$2,489.7
Other Sources	120.1	82.8	202.9
Total	1,335.8	1,356.8	2,692.6
Percent Increase	5.4%	1.6%	8.9%
ESD			
Property Taxes	85.9	90.3	176.2
Percent Increase	5.3%	5.0%	10.7%

Dollars in millions.

Local revenue is 32% of school formula revenue and 42% of ESD revenue. Local revenue stays in the district where collected. However, local revenue is treated as a statewide resource for equalization purposes.

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 2007 Legislature made no changes to K-12 local revenue sources.

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 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. The estimate for the federal portion of County School Fund revenue is \$33.9 million for only 2007-08. The Act was extended for 2007-08, but continuation in 2008-09 requires legislation by Congress. If enacted, revenue may not be at the prior funding level. The small growth in non-property tax revenue for schools is from assuming no federal timber related revenue in 2008-09. If Congress should continue some level of revenue sharing, this will be added funding included in local revenue in 2008-09.

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 is based on the continuation of State Land Board distribution policy adopted in early 2005. To avoid substantial variations in distribution from year to year, the Board decided to calculate the growth rate using a three-year rolling average of fund values. This rate then will determine what percent of the fund value is to be distributed. The distribution percent can vary from 2% to 5% of the value based on the average value growth rate. A condition is that there are sufficient earnings to make the distribution level. The distribution estimate is \$109.4 million for the biennium.

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 11.6% higher in 2007-09

than in the prior biennium. This combined growth rate is below the State School Fund growth rate because of the expected lower local revenue growth rate.

With the K-12 and ESD allocation formulas effectively distributing 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 2007 session. The ESD share is 4.7% with the other 95.3% primarily for school districts.

State School Fund And Local Formula Revenue			
	2007-08	2008-09	Biennium
K-12 School			
Special programs/grants HB3141	\$ 4.8	\$ 4.8	\$ 9.6
Small High Schools	2.5	2.5	5.0
State Special Education	8.0	8.4	16.4
School Equalization Formula	4,110.3	4,282.6	8,392.9
Formula Percent Increase	6.0%	4.2%	11.6%
Local Revenue above Formula	5.5	5.0	10.5
ESD			
Equalization Allocation	204.7	213.3	418.0
Allocation Percent Increase	6.7%	4.2%	9.0%
10 th grade assessment testing	0.5	0.6	1.1
Total	\$4,336.3	\$4,517.2	\$8,853.5
Dollars in millions.			
K-12 includes youth corrections and juvenile detention education programs.			

Local Revenue Above K-12 Formula

Typically one or two 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.

Revenue Cap

Like the 2005 and 2003 Legislatures, the 2007 Legislature did not put a cap on school formula revenue. The 2001 Legislature capped the allocation from the State School Fund and local revenue each year based on the close of session local revenue estimates. With an overall cap, if local revenue came in above estimates, state aid decreased to keep the combination under the cap. The 2001-03 caps were not exceeded given the impact of economic conditions on revenue.

Additional K-12 School Funding

The 2007 Legislature made special allocations to K-12 schools outside the State School Fund. The School Improvement Fund was the principal conduit. The fund is primarily for school district use to make improvements to meet quality education goals. The 2005 Legislature did not transfer money to this fund. 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.

School Improvement Fund

The 2007 Legislature appropriated \$260 million to the School Improvement Fund from the

Additional K-12 and ESD State Funding			
	07-08	08-09	Biennium
School Improvement Fund			
K-12 Schools	\$ 123.8	\$ 123.8	\$ 247.6
ESDs	<u>6.2</u>	<u>6.2</u>	<u>12.4</u>
Total Improvement Fund	\$ 130.0	\$ 130.0	\$ 260.0
Local Option Equalization	0.2	0.2	0.4
Dollars in millions.			

General Fund. This is the first use of the fund since 2001-02. Also new for 2007-09 is the inclusion of ESDs to receive a 4.75% share of the Fund (SB 318).

The 2001 Legislature approved a \$220 million General Fund appropriation to the Department of Education for the School Improvement Fund, but only \$108 million was distributed in

2001-02. The remainder for 2002-03 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 funds. 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 increased the amount of local option property taxes that can be raised by districts with voter approval without reducing school formula revenue. The per student limit increases from \$750 to \$1,000 per weighted student and the percent of revenue limit increases from 15% to 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 \$1,000 is also indexed to increase 3% per year.

The Legislature appropriated up to \$400,000 for the equalization of school local option property taxes. 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.

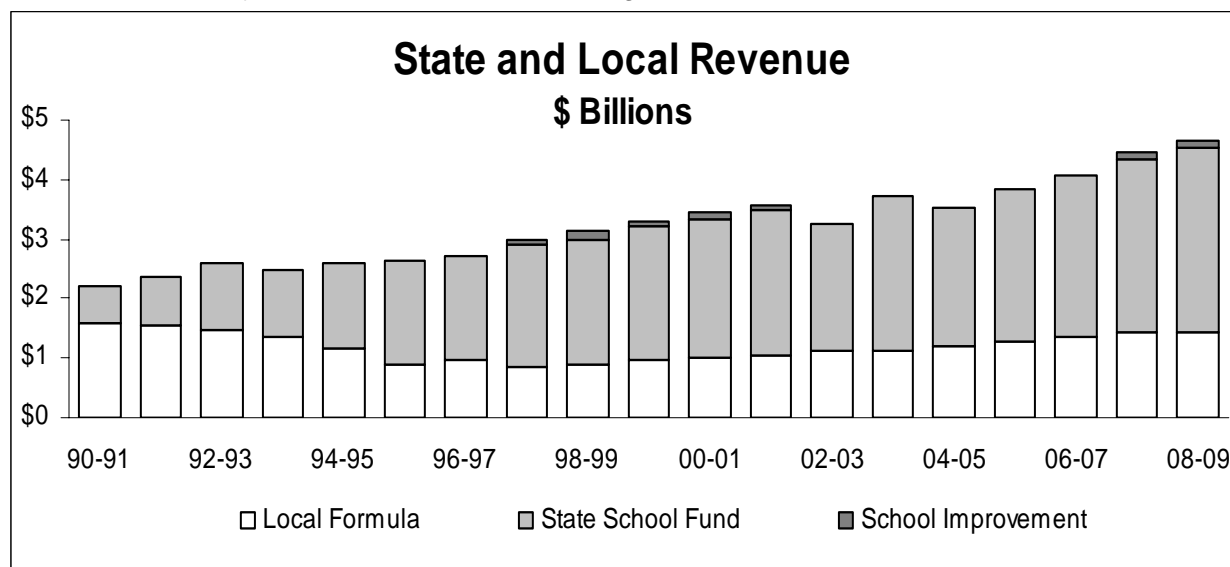
Construction Tax Authority

The 2007 Legislature granted school districts new taxing authority. School districts may 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.

To make use of the tax, school districts must develop long-term facility plans. The districts need intergovernmental agreements with local governments for collecting the tax and collection expenses cannot exceed 1% of tax revenue. The legislation preempts local governments from using a construction tax until 2018, but grandfathered in local government construction taxes already in effect or in the process of being adopted as of May 1, 2007.

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. 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 2007-09, this share is about 43.7% with the inclusion of the School Improvement Fund. The only use of the Education Stability Fund to augment State School Fund dollars was in 2003-05 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 2007 Legislature made one change to the school distribution formula. The Legislature increased the high cost disability grant statewide but with the same student threshold. This change is in SB 211.

District Formula Revenue (State and Local)	=	General Purpose Grant	+	Transportation Grant	+	High Cost Disability Grant	+	Facilit y Grant
---	---	--------------------------	---	-------------------------	---	-------------------------------	---	-----------------------

The increased high cost disability grant reduces the funds available for the general purpose grant. The general purpose grant is the equalizer that makes the sum of the four grants equal available state and local formula revenue.

High Cost Disability Grant

The 2007 Legislature increased the \$12 million grant limit to \$18 million per year. In the 2007-09 biennium, the eligible costs may be less than the \$18 million limit. Any difference will be distributed as a general purpose grant. As costs increase over time, the \$18 million limit will likely be reached in 2009-11. Then grants will again have to be proportionately reduced to stay with the \$18 million annual limit.

A district's high cost disability grant is the sum of the approved disability costs for each special

High Cost Disability Grant	=	Up to Sum of Costs above \$30,000 per Disability Student
-------------------------------	---	---

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.

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.

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 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 2007 Legislature did not make any changes to the facility grant. However, the 2005 Legislature increased the limit for the total of district facility grants starting in 2007-08. The grant total in 2005-07 could not exceed \$17.5 million per biennium and was prorated down if eligible costs exceeded \$17.5 million. Beginning in 2007-09 the grant total cannot exceed \$25 million and is prorated down if eligible costs exceed \$25 million in a biennium. Eligible costs

Facility
Grant

=

Up to 8% of
Construction Costs

have consistently exceeded the grant limit. The new limit may increase the previous effective rate of 3%-4% of construction costs by a percent or two.

The facility grant remains initially at 8% of the total construction costs of 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.

Transportation Grant

The transportation grant did not change in 2007. The revised equalization formula section below includes a brief description.

General Purpose Grant

The 2007 Legislature did not change the general purpose grant. The revised equalization formula section below includes a brief description.

Revised 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

District Formula Revenue (Equalization Funding)			General Purpose Grant		
State School Fund Grant	+	Local Revenue	=	Students (ADMw) X	\$4,500 Adjusted by Teacher Experience and Balanced to Available \$
			+	Transportation Grant	
				70%-90% of Transportation Costs	
			+	High Cost Disability Grant	
				Up to Sum of Costs above \$30,000 per Disability Student	
			+	Facility Grant	
				Up to 8% of Construction Costs	

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 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 130%) 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 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

The 2007 Legislature maintained the new 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 2007-09. The Legislature also increased the minimum funding level per ESD to \$1 million from just below \$950,000.

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 2007-09 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.

$$\boxed{\text{State and Local Revenue}} = \boxed{\text{Higher of } \begin{array}{l} (1) \text{ Base Revenue X Percent to Balance} \\ (2) \$1 \text{ million} \end{array}}$$

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.

"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