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K-12 and ESD SCHOOL FINANCE: State School Fund Distribution

BACKGROUND

The Oregon Constitution declares that the Legislative Assembly shall provide by law for the establishment of a uniform and general system of Common schools. The same Constitution directs the Legislative Assembly to appropriate in each biennium a sum of money sufficient to ensure that the state's system of public education meets quality goals established by law. This report describes Oregon's school finance system for the distribution of State School Fund dollars to K-12 school districts (SDs) and Education Service Districts (ESDs).

The operating revenue of K-12 public education in Oregon has been primarily funded through a combination of state and local resources.[1] The relative shares between state and local revenue resources have shifted over time, primarily in response to structural changes to the state's property tax system. In fact, the school finance system distributes combined revenue, commonly known as the formula revenue, from both the state and statutorily defined local sources (or local revenue). The report first describes the principles used to define financial equity for school districts and their implementation in the K-12 equalization formula. The report also describes the rationale for the financial equity of ESDs and the method of ESD equalization.

The current finance system is a legacy of two constitutional property tax measures. Voters approved Measure 5 in 1990 and Measure 50 in 1997. These two measures drastically changed Oregon's school finance system by limiting property taxes for SDs and ESDs. They led to a substantial shift in funding source from local property taxes to the state general fund.

In response to the Measure 5 property tax reductions and resulting insufficiency of local revenues, the 1991 Legislature increased state funding. That legislature also adopted a K-12 funding equalization formula and implemented its phase-in. It also began providing state funds to ESDs to make up a share of property tax losses. By the end of the 5-year tax limit phase-in, the state primarily funded the school system and the implementation of the equalization virtually eliminated local control over school funding.

Measure 50 during the 1997 Legislative Session continued the shift to state funding[2]. Measure 50 added another property tax limitation more restrictive than Measure 5. Consequently, the 1997 Legislature

[1] Federal resources account for roughly 10% of total operating revenue.
[2] In 1996 voters passed Measure 47, dramatically changing the property tax system. However, the measure could not be implemented as written, so the Legislature crafted Measure 50 adhering to the spirit and intent of M47.

ended up raising the level of state funding even higher and further modified constraints to the school equalization formula.

State funding, which had been less than 30% of total available formula revenue prior to 1990-91, increased to about 70% in 1999-00. State funding currently stands at 67.8% for the 2019-21 school years. Beginning in 2011-12, the K-12 school share of this state and local formula revenue has been 95.5% and the ESD share 4.5%.

SCHOOL DISTRICT EQUITY

The 1991 Legislature created a new measure of financial equity for school districts. What were acceptable differences in funding per student prior to 1991 were deemed unacceptable following the passage of Measure 5. A new measure of fairness was implemented. It was influenced by the outcomes of school finance court cases at the time.[3]

Equity as a measure of fairness does not necessarily mean that all school districts get the same funding per student. 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.

The measure of equity is reflected in the K-12 school equalization formula. The basic structure of this formula has not changed since the initial adoption in 1991. The formula is a statutory definition of fairness applied to the financial needs of school districts. Using school district data, the K-12 equalization formula determines an equalization funding for each district. This funding level is each school district's share of available state dollars (called State School Fund) and local revenue used in the formula. State School Fund dollars for each district make up the difference between the district's equalization funding and its local revenue.

Equity Principles

The measure of equity adopted by the legislature is essentially equal financial resources per student for similar groups of students. This was the primary measure of equity used in school finance in 1991. Funding equity per student may generally provide for similar educational programs and opportunities. However, funding equity does not necessarily result in equal educational outcomes or achievement levels.

The logic of funding equity is that differences in revenue resources among school districts must be justified in a rational manner. Now that the state is the primary source of K-12 education funding, the goal is to either justify or eliminate the variations in resources among districts that existed prior to the 1990 passage of Measure 5.

To accomplish this goal, the following four principles guided the development of the new formula:

- Share all school funding sources statewide.
  Method: Combine and allocate all state and local general operating revenue.

- Let school districts decide how to spend their allocation.
  Method: Distribute state aid in lump sum, not in categorical grants.

[3] In 1991, in Coalition for Equitable School Funding, Inc. v. State, the plaintiffs challenged then-current state education finance system on equity grounds. There was also a prior challenge to the system on equity (Olson vs State, 1976) but the Oregon Supreme Court concluded that the school finance system was not necessarily desirable but, nonetheless, was not violating either the equal protection or education clauses of the Oregon Constitution.

- Create funding differences only for uncontrollable cost differences.
  Method: Justify revenue differences in a rational manner.

- Avoid incentives for school districts to increase their allocation.
  Method: Minimize number of classifications and set limits.

In short, every district should get the same amount per student, adjusted only for unavoidable differences in costs. Implementing these principles provides the following general formula for equity:

State Aid to District	+	*Local Revenues*	=	*Number of Students*	x	*Base Funding Per Student*	x or +	*Cost Factors*

Under this simplified formula, the amount available for distribution is the sum of state aid and local revenues. The base funding per student is the same for all districts and is determined by the amount of money available for distribution. The cost factors adjust each district's allocation higher or lower to reflect uncontrollable cost differences.

The Legislature has changed these factors over time. They will no doubt be periodically reviewed and revised by future legislatures. Hence, equity is an evolving target over time, and an analysis of the movement toward equity is one snapshot of a moving picture.

With application of this formula, each district's share of total state and local funding depends solely on the base funding and the cost factors. If local revenues are high, state aid is low. If local revenues are low, state aid is high. In effect, the formula converts local school revenue resources into part of available statewide funds for all schools. It does not matter what a district receives in property taxes or other local revenues. The only revenue that matters is the statewide sum of state and local dollars. This statewide sum, minus statutorily listed expenditures from state fund, is commonly called the formula revenue available for distribution.

K-12 SCHOOL EQUALIZATION FORMULA

District Formula Revenue (State and Local)	=	General Purpose Grant	+	Transportation Grant	+	High Cost Disabilities Grant	+	Facility Grant

The school equalization formula, illustrated above and to be explained in detail, allocates state and local general operating revenue to local school districts. The formula allocates this revenue based on the relative need of each district for funding by using various cost factors. Cost factors are used in four separate grant calculations that together determine the total allocation. Before discussing the formula itself, essential terms are defined.

DISTRICT FORMULA REVENUE

District formula revenue is the school district portion of the State School Fund and local revenue (school district operating property taxes plus statutorily listed other sources). The local revenue portion stays with the district where collected but is treated like a state resource. A later section provides more information on local revenue sources.

District Formula Revenue = **State School Fund Grant** + **Local Revenue**

Formula revenue is available for general operations. It does not include bond revenue or state and federal categorical aid. These funds are dedicated to specific programs and cannot be used for general purposes.

State School Fund

The Legislature allocates money to the State School Fund (SSF) primarily from the state General Fund and lottery resources available for distribution. Thanks to Measure 91 in 2014, SSF added one more source of the fund - Marijuana taxes. Most recently, the 2019 legislature created a Corporate Activity Tax and added some of its revenue as a source of the SSF. Finally, a transfer of Education Stability Fund in times of economic crisis becomes a part of the SSF. The share of the State School Fund for all SDs is 95.5% of the formula revenue less all school districts' combined local revenue.

The State School Fund grant to an individual school district is its equalization formula revenue less its local revenue. If local revenue is more than the equalization formula amount, then the district does not receive a state school fund grant. However, it does keep its local revenue in excess of its formula amount. Only a few school districts have seen excess local revenue in the past.

Local Revenue

The chart to the right lists local revenue sources that are offset against a district's equalization formula revenue. Some are not collected by school districts and hence may not appear to be local but are local in the sense that the revenue is dedicated for school funding, even though collected by another entity.

Permanent-rate-based operating property taxes are about 95% of these local revenues. Property taxes collected include taxes paid in the current year for any prior year delinquent taxes and interest.

LOCAL REVENUES

Operating property taxes collected
Common School Fund
County School Fund
Federal forest revenue (school 25%)
County trust forest revenues
ESD shared revenues Supplantable federal funds Payments in-lieu of property taxes
Local option taxes above limit

Common School Fund (CSF) revenue is the portion of the Fund's earnings distributed to school districts. CSF is a constitutional state fund for schools. County School Fund is a statutory fund with various revenue sources. Federal forest revenue, of which 25% go to schools, is timber related funds. County trust forest revenue comes from former county timberland (mostly in Tillamook and Clatsop counties) managed by the state[4]. ESD revenue is excess local ESD revenue, above the ESD share of the total formula revenue,

[4] In November 2019, a Linn County Circuit Court jury ruled that the state of Oregon breached its contract with certain timber counties by failing to generate enough revenue through logging on state managed forestlands. The jury awarded $1.06 billion to thirteen counties. If upheld, revenue from state managed county forestlands will increase.

shared directly with school districts an ESD is serving (called component school districts). Federal funds are not offset against state aid because federal law generally prohibits using these funds to offset ("supplant") other revenues. Local revenue includes only supplantable federal funds. Local option property taxes over the statutory cap become part of local revenue.

Local revenue sources included in the total formula revenue were traditional sources of school funding. They were also mandatory payments to school districts. The policy decision was to share the benefits of these mandatory payments statewide. Other sources of local funds such as school fees and public or private contributions are not included. The use of public contributions from local government probably was not contemplated in 1991. If sources of voluntary contributions were included, then these contributions probably would not be made.

The equalization formula, in effect, overrides whatever formula may exist for the distribution of each of these local revenues to school districts. (For example, Common School Fund is apportioned to each school district based on its average daily membership, or roughly student count, from the prior year.) Although each specific local revenue distribution still operates, the equalization formula cancels its effect by offsetting the local revenue against its equalization formula revenue. This is why including voluntary contributions as local revenue would likely result in these contributions not being made.

Cost Factors

In the four grants on the right-hand side of the equalization formula, five different factors adjust for cost differences among school districts:

- Weighted student count
- Teacher experience adjustment
- Transportation costs
- High cost disability students
- New facility costs

GENERAL PURPOSE GRANT

The general purpose grant is weighted students times the targeted per student amount, adjusted for teacher experience and balanced to total State School Fund and local revenue available. There are no constraints on how this money can be spent at the district level. The grant accounts for a little over 95% of formula revenue. Thus, number of students and their associated weights are very important determinants of district formula revenue.

General Purpose Grant	=	Students (ADMw)	X	$4,500 Target Adjusted by Teacher Experience & Balanced to Total Funds

Weighted Student Count

Rather than attempting to generate an individual cost factor for each district or type of district, the formula incorporates a system of weights directly into the student count.

The student count begins with average daily membership (ADM) that is attributable to a district. This becomes resident ADM (ADMr). The ADMr count is then adjusted to reflect the differences in cost of educating different types of students. For example, a special education student (one with an individualized education plan or IEP) receives an extra weight of one. The total cost weight the student is then 2.0. In

effect, one student counts as two students. Technically, the student counts as 2 ADMw, where the "w" stands for weighted.

The double weighting primarily reflects a national study in 1988 that showed districts were on average spending about twice the norm for services to special education students. Although some special education students cost much more than twice the average and others cost less, the Legislature wanted to avoid creating a complicated weighting scheme that would encourage districts to classify students in categories that generated more funds.

The table below shows the weights in the formula. In looking at these weights, please note the following:

- A district must get approval of the Department of Education to qualify more than 11% of its students for the special education weight.

- The poverty weight is based on the number of children in poverty families. It is not based on identifying individual students, but a group. Likewise, state data on students in foster homes and in facilities for neglected and delinquent children are group counts. Because these three counts do not identify individual students, they are not included in a 2.0 maximum additional weight per student.

Student Cost Weights

	Weight	ADMw
Special Education	1.00	2.00
English Language Learner	0.50	1.50
Pregnant and Parenting	1.00	2.00
Students in Poverty	0.25	1.25
Neglected and Delinquent	0.25	1.25
Students in Foster Homes	0.25	1.25
Kindergarten if Half-Day	-0.50	0.50
Elementary District Student	-0.10	0.90
Union High District Student	0.20	1.20
Small School	Varies	Varies

- Elementary districts are those that do not offer a high school. Data showed these districts typically spend less than the average per student while the union high schools that serve these areas spend more than the average. The union high and elementary weights are designed to shift funds between these districts without affecting the total available in the geographic area.

- Students enrolled in a qualified small school receive extra weight. The weight is based on grade level, average grade size, and distance to the nearest school site. The smaller the school, the higher the weight. This weight is based on the size of each school, not the size of a school district. A few large school districts have remote small schools qualifying for this additional funding. A small school must have remained in the same location since 1995 and have qualified as a small elementary school in 1995 or small high school in 2009. To qualify, elementary schools must be remote, which is defined as more than 8 miles from the nearest elementary school in the same school district. Public charter schools qualify as small schools under conditions specified in statute. If small high schools merge, the combined weight for four grades is the higher of (1) the sum of the extra weight each small high school was eligible for prior to the merger or (2) the eligible extra weight of the merged high school if still a small high school.

Weighted students in the formula include students in the Youth Corrections Education Program (YCEP) and students in the Juvenile Detention Education Program (JDEP). The state provides the education programs for these students. These programs are treated as though they are special school districts. Each YCEP student counts as two ADMw and each JDEP student counts as 1.5 ADMw. These students are not counted by their resident school district.

The formula uses the higher of the current year ADMw or prior year ADMw. Extended ADMw is the term for the higher ADMw of the two years.

Teacher Experience Adjustment

The teacher experience adjustment is a cost factor for differences in salary costs related to years of experience. Virtually all school districts have pay schedules based in part on teacher experience. As teacher experience increases, so do salaries. Incorporating this into a student weight was a significant issue, so an adjustment factor was added to the base funding per student. This factor increases (or decreases) each district's base funding per student by $25 for each year the district's average teacher experience exceeds (or falls short of) the statewide average. Statewide, these district gains and losses roughly balance out.

Teacher Experience Adjustment	=	$25 X (District Average - State Average)

Per Student Target and Balancing to Available Funds

To initially make the formula easier to understand, the pre-adjustment base funding per student was arbitrarily set in law at a target of $4,500 per weighted student in 1991. However, this target must be factored up or down depending on total funds available for allocation by the formula and the amount of this total used for the other three grants. The balancing ratio intentionally started out below 100%. Hence the reference to $4,500 as a target. The balancing ratio is about 188% in 2019-20. Thus the $4,500 with a 188% balancing ratio is $8,460 with a 100% ratio.

Target Balanced	=	($4,500 + Teacher Experience Adjustment) X Balance Ratio

TRANSPORTATION GRANT

The transportation grant uses actual costs as the factor to adjust for different transportation costs per student.

The transportation grant is 70% to 90% of approved transportation costs. Approved costs are those attributable to transporting students from home to school (if over 1 mile from elementary school or 1.5 miles from high school), between schools, on field trips and for other reasons in special cases. This is a categorical grant only available for actual transportation costs. This grant is similar to the 60% transportation reimbursement provided in the pre-Measure 5 formula (1990).

To determine which districts receive a higher percentage the average transportation cost per student is calculated for each district. Districts are then ranked from the highest to the lowest cost per student. The top 10% of highest cost districts qualify for 90% grants and the next 10% qualify for 80%. The remaining districts receive 70% grants.

Transportation Grant	=	70% to 90% of Transportation Costs

District Rank	% of Costs
Top 10%	90%
Next 10%	80%
Bottom 80%	70%

The other 10-30% of approved transportation costs is not directly funded. Districts likely fund it from their general purpose grant. Each dollar of increased transportation costs means 10-30 cents for transportation from other funds. This was likely adopted to encourage efficiency.

Before the change in 2003, the transportation grant was 70% of approved transportation costs. If a district has a very high transportation cost per student, for example $800, its 30% or $240 is much higher than

for the average cost district (about $75) and its general purpose grant for other than transportation costs is less per student.

To deal with this situation the 2003 Legislature decided that the very highest transportation cost per student districts should have 80% or 90% of costs included in the transportation grant. The grant did not change for the bottom 80% of districts.

The highest cost districts tend to be rural districts with a low density of students where most of the students ride a bus over considerable distances. These districts are helped by the change in the transportation formula. The higher transportation grants reduce funds available for general purpose grants so that districts with 70% transportation grants receive a little less state funding.

HIGH COST DISABILITIES GRANT

The high cost disability factor is actual costs above $30,000 per disability student to help compensate for the uneven distribution of high cost disability students. High cost special education students tend to be concentrated in urban areas where medical and therapeutic services are available. The cost for their education can be disproportional to the revenue generated from the double weighting of these students in the school equalization formula. This was viewed as an extra burden not fairly shared by all districts.

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

A district's high cost disabilities 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.

The Legislature imposed a cap on total high cost disabilities grants of $18 million per year starting in 2007-08. The cap increased to $35 million a year in 2015-16. (Starting from 2020-21, this grant cap is going to be $55 million per year.) If eligible costs exceed the cap, grants are prorated. Grants are typically lower than actual costs, often substantially lower.

The 2005 Legislature increased the student cost threshold to $30,000 from the $25,000 initially adopted by the 2003 Legislature. This reduced the expected number of eligible students by about half and increased the percent of eligible costs covered by the grant. The grant was also made a permanent part of the formula by removing the sunset date.

Adding a high cost disabilities grant to the formula reduces the general purpose grant total by the same $35 million. Thus, all districts share in the cost and those with high cost disability students benefit by their high cost disability grant exceeding the reduction in their general purpose grant.

FACILITY GRANT

The cost of new facilities to increase classroom space is the differentiating cost factor for districts with new classrooms to equip. Districts with rapidly growing student populations have these costs much more often than districts with stable or declining student populations.

The facility grant is 8% of the total construction costs of new school buildings excluding land. New buildings include new school buildings, structures added onto existing school buildings and premanufactured structures added to a school district if those buildings or structures are to be used for instructing students. The grants to districts cannot exceed $7 million per biennium and are prorated if 8% of eligible costs exceed $7 million. The 2005 Legislature increased the biennial limit to $25 million beginning in 2007-09 from the initial $17.5 million limit. The grant went through a series of reduction and the current $7 million cap was established starting from 2019-20.

Facility Grant	=	Up to 8% of Construction Costs

EQUALIZATION FORMULA SUMMARY

The equalization formula allocates available revenue to each school district using a measure of relative financial need. The formula uses weighted students as the primary determinant of funding. A school district's equalization formula revenue is its State School Fund grant and local revenue.

This equalization formula amount is derived by summing a general purpose grant, transportation grant, high cost disabilities grant and facility grant. Statewide, the general purpose grant is a little over 95% of equalization funding, transportation is a bit less than 4%, and high cost disabilities and facility are the remainder. Previous discussions make it clear that general purpose grant uses ADMw, but three other grants do not. In fact, these three grants are considered set-asides within SD share of available formula revenue (95.5%), while a general purpose grant allocates the remainder that is net of three grants.

Combining the calculation of each of the four grants yields a completed equalization formula.

K-12 SCHOOL EQUALIZATION FORMULA

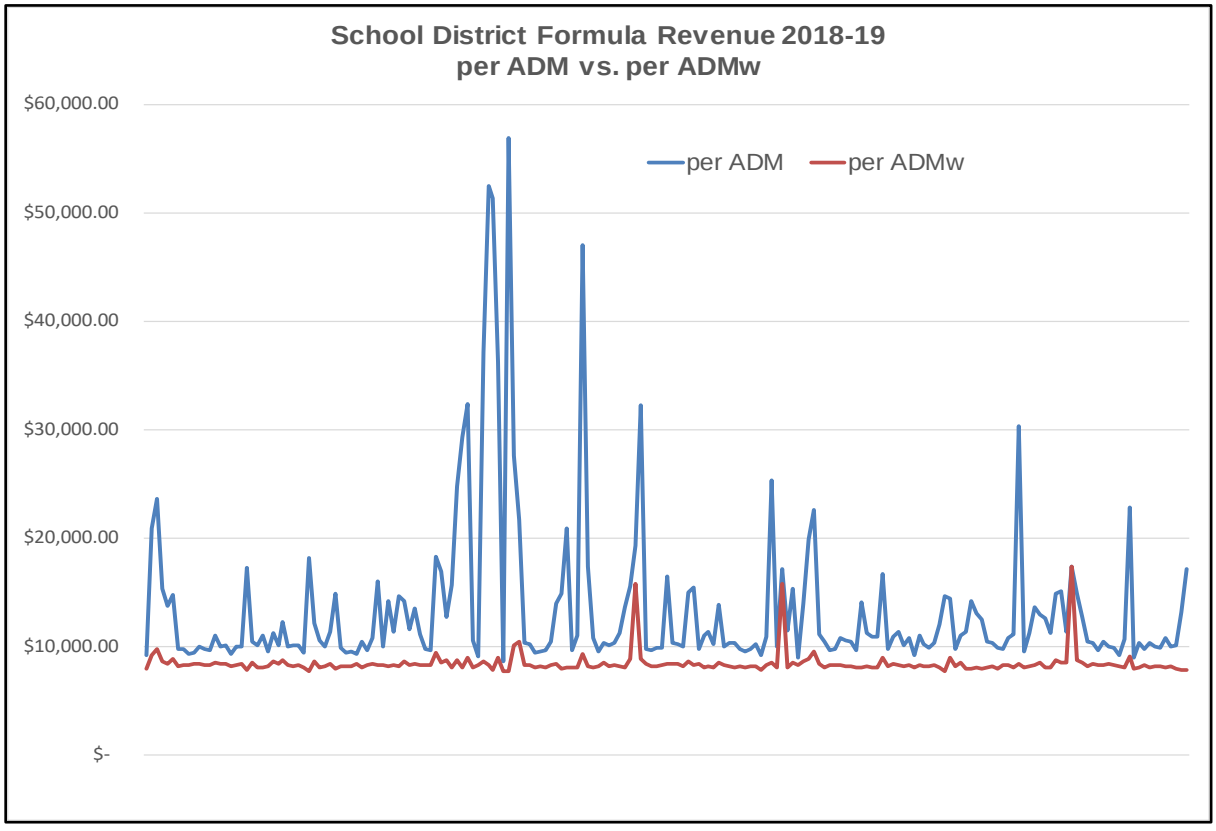
District Formula Revenue (Equalization Funding)			=	General Purpose Grant		
State School Fund Grant	+	Local Revenue		Students (ADMw)	X	$4,500 Adjusted by Teacher Experience and Balanced to Available $

+	Transportation Grant	+	High Cost Disabilities Grant	+	Facility Grant
	70%-90% of Transportation Costs		Up to Sum of Costs above $30,000 per Disability Student		Up to 8% of Construction Costs

This is the current formula for 2019-20. The formula is permanent in the sense that it continues to operate until changed by new legislation. Temporary constraints or exceptions to the equalization formula ended in 2000-01. Constraints usually took the form of minimum grants that provided funding above the formula allocation during the phase-in. Prior minimum grants were commonly known as flat grants and stop-loss grants.

The chart below for the 2018-19 school year illustrates how the amount of formula revenue varies across school districts - which are on the horizontal axis. The formula generates a narrow band of revenue per weighted student (formula revenue per ADMw), with occasional exceptions for some small school districts. Facility grants are not included here as they vary substantially year to year, but now they are relatively minimal relative to the size of formula revenue.

School district formula revenue per ADM (in blue color) shows a very wide range between $10,000 and $60,000. High formula revenue per ADM (roughly head-count) for a district just means that the district has a relatively large number of students whose education is more costly than other districts. When adjusted for cost weights, per student formula revenues become much more comparable to one another. This weight-adjusted formula revenue, or formula revenue per-ADMw, is shown in brown color. It shows a little variation across school districts, only with occasional exceptions.



Payment Schedule

Districts receive State School Fund payments according to the payment schedule listing. Using information from school districts, the Oregon Department of Education makes an estimate in March preceding the school fiscal year for budgeting purposes. The department makes payments based on this March estimate during the following fiscal year until May when adjustments are made using a revised estimate. Based on new information during the fiscal year, the department periodically revises its pre-fiscal year March estimate and informs districts about the new estimate.

PAYMENT SCHEDULE	
July 15	16 2/3 %
August 15	8 1/3 %
September 15	8 1/3 %
October 15	8 1/3 %
November 15	8 1/3 %
December 15	8 1/3 %
January 15	8 1/3 %
February 15	8 1/3 %
March 15	8 1/3 %
April 15	8 1/3 %
May 15	8 1/3 %
June 15	0 %
	100 %

OTHER STATE SCHOOL FUND ALLOCATIONS

Funding for some expenditures are allocated directly from the State School Fund. These allocations flow to statutorily specified programs, independently of the formula described above. These expenditures are often called carve-outs or off-the-top expenditures as they are taken directly from the SSF, and the remaining SSF become part of the formula revenue available for distribution.

Educator Advancement Fund (previously Network of Quality Teaching and Learning)

In the 2013 regular session, the Legislature created the Network of Quality Teaching and Learning (NQTL). NQTL is the predecessor to the Educator Advancement (EA) program created by the 2017 legislature. For the 2017-19 biennium, EA Fund was provided by $6 million from the State School Fund, and $16.75 million each from SDs and ESDs out of their respective formula revenues. EA Fund fluctuates proportionately with the State School Fund.

English Language Learn Program

Each biennium, $12.5 million from the State School Fund will be transferred to the Statewide English Language Learner Program Account. Moneys in the Statewide English Language Learner Program Account are used for statewide activities related to English language learner programs.

Healthy School Facilities Fund and Office of School Facilities

Each biennium, $2 million from the State School Fund will be transferred to the Healthy School Facilities Fund to be used as grants for costs associated with testing for elevated levels of lead in water used for drinking or food preparation. Allocation to the Office of School Facilities is to assist school districts with capital construction projects and is capped at $6 million per biennium.

Small High School

The Small School District Supplement Fund receives $2.5 million per year from the State School Fund. Small school districts are districts under 8,500 weighted students with high schools having less than 350 students for four grades and 267 for three grades. Out of 197 school districts, about 90 school districts qualify for a grant each year.

Each small school district receives its proportionate share based on its share of small high school ADM (average daily membership) each year of the biennium. This policy started from in the 2003-05 biennium and is scheduled to sunset at the end of 2020-21 school year.

State Special Education Programs

Certain state education programs are funded directly out of the State School Fund. These are for students in pediatric nursing facilities, long-term care facilities and the State School for the Deaf. The State School Fund amount is limited to the statewide average net operating expenditure per student times the number of student slots available in these special education programs.

Other Direct Expenditures from the State School Fund

Allocation to support the development of talented and gifted education is capped at $350,000 per biennium and the speech language program receives up to $150,000 per biennium for its administration. Other spending directly out of the State School Fund includes (1) $968,000 per biennium for grade 10 testing purpose, (2) $1,600,000 per biennium for purposes related to the Oregon Virtual School District and (3) $2,850,375 per biennium, at no charge to the student, to students who are eligible for reduced price lunches under the United States Department of Agriculture's current Income Eligibility Guidelines.

Local option grants (varying annually) and charter school closure fund (limited duration) are other direct expenditures. In 2001, the Legislature created a local option equalization grant for eligible school districts levying a local option property tax. Districts with an assessed value per student less than the target district are eligible.

OTHER STATE FUNDS FOR SCHOOLS

In addition to the State School Fund, the Legislature may distribute other state funds to school districts.

School Improvement Fund

The legislature has not allocated money to the School Improvement Fund for some time, but money has been allocated in some years since the establishment of the fund in 2001. The Legislature has not made an appropriation to the School Improvement Fund since the 2007-09 biennium. When funded, districts receive an allocation based on their prorated share of weighted students. Many of policy goals of this fund have been incorporated in the Student Success Act, funded through newly created a corporate activity tax (CAT).

Corporate Activity Tax

The 2019 Legislature created a corporate activity tax (CAT) based on commercial activity conducted by businesses and dedicated the tax revenues to the programs initiated in the Student Success Act. After administrative expenses and direct allocations to the SSF, the remainder of revenues from the CAT fund three accounts - Student Investment Account (at least 50%), Statewide Education Initiatives Account (up to 30%), and Early Learning Account (at least 20%). Moneys allocated to the Student Investment Account are distributed to school districts based on ADMw with poverty weights doubled. In addition, HB 3427 of the 2019 legislature specified that some of its revenues be used for the State School Fund.

Education Stability Fund

Voters approved a constitutional amendment converting the Education Endowment Fund to the Education Stability Fund (ESF) in 2002, allowing the principal to be used to fund public education. The fund receives 18% of lottery net proceeds. The size is limited to 5% of General Fund revenue. Use of the principal requires meeting criteria reflective of an economic recession and approval by a 3/5 majority vote in each legislative chamber. The principal can also be used if the Governor declares an emergency and both chambers approve by a 3/5 majority vote. If approved by the legislature, money from the ESF can be transferred to the State School Fund for distribution to SDs and ESDs.

EDUCATION SERVICE DISTRICT EQUITY

The 2001 Legislature passed Education Service District (ESD) revenue equalization legislation. ESDs began receiving State School Fund dollars after 1990's Measure 5 to help compensate for property tax cuts. From 1991 to 2001, each Legislature provided State School Fund dollars to ESDs only for the immediately following biennium. The amount was based on a percent of property tax losses due to Measure 5 and 50. However, the issue of an imbalance in state and local revenue per student among ESDs had not been addressed.

The 1999 Legislature started to narrow the gap between high and low revenue ESDs, but ESD property tax and state funds per student still varied substantially. These ESD funds were in the hundreds of dollars per student, but the high per student amount was over four times as great as the low amount. This was a high multiple compared to school districts. The discussion of funding equity issue was delayed until after the completion of equalization for school district revenue.

School District and ESD Financial Equity

Defining permanent ESD equity was a two-step process. The first step defined 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.

The 2005 Legislature reduced the ESD share by ¼ of a percentage point and added it to the school share with additional adjustment in the following year. Beginning in 2011-12, the K-12 school share has been 95.5% with the ESD share remaining 4.5%.

Year	K-12 Share Of Total	ESD Share Of Total
2003-04	95.25%	4.75%
2004-05	95.15%	4.85%
2005-06	95.00%	5.00%
2006-07	95.25%	4.75%
2011-12	95.50%	4.50%

Equity Rationale

The second step was to define equity among ESDs. The question was how the ESD portion of the total should be fairly divided up among the 21 ESDs existing at the time. After consideration of various options, the Task Force's Subcommittee on Finance reasoned along the following lines:

- ESDs support their school districts as a primary function
- ESD support services and funding levels vary significantly around the state
- ESDs provide many special education services
- K-12 school equalization formula already exists with special education weights
- Equalize ESDs using a percent of K-12 formula revenue allocated to their school districts.

Recognizing that ESDs are support districts for school districts, the task force recommended that ESD equalization be measured by the K-12 school equalization formula. Consequently, an independent and separate ESD equalization formula was not developed. The idea of piggybacking ESD equalization onto K-12 school equalization was to recognize the reality that an ESD would face similar financial needs of school

districts it was serving. Since the equity of financial needs among school districts were addressed in school equalization formula, it was natural to take advantage of results from K-12 formula revenue distribution.

ESDs and School Districts

As of 2020, there are 19 ESDs. 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. However, the allocation of revenue to an ESD does not directly use a measure of students in the ESD.

Equalization Revenue

The ESD share of total formula revenue is 4.5% beginning in 2011-12. Total formula revenue is the sum of (1) State School Fund dollars available for distribution to school districts and ESDs and (2) statutorily listed local revenue (primarily property taxes) from SDs and ESDs.

ESD EQUALIZATION

The ESD equalization calculation determines each ESD's operating revenue (or general services revenue) from the State School Fund and local revenue. The allocation formula basically assumes that ESD revenue should be proportional to the equalization formula revenue of its component school districts.

General Services Revenue	=	Higher of	(1) Base Revenue x % to Balance (2) A Minimum ($1.165 million in 2015-16)

GENERAL SERVICES REVENUE

General services revenue for an ESD is the sum of State School Fund grant allocated to the ESD and the local revenue of the ESD.

General Services Revenue	=	State School Fund Grant	+	Local Revenue

State School Fund Grant

The State School Fund Grant is the ESD's allocated general services amount less its local revenue. If local revenue is greater than the general services amount, then the State School Fund Grant is zero and there is excess local revenue. Treatment of excess local revenue is discussed later in this report.

Local Revenue

Local revenue is the sum of two sources: permanent-rate property tax collections (current year and delinquent payments and interest from prior years) and revenues from state managed county trust timber (Oregon Revised Statutes Chapter 530). Like for schools, local revenue does not pass to the state for reallocation to ESDs. Local revenue stays with the ESD (unless there is excess as described below).

BASE REVENUE

Beginning in 2011-12, the base revenue is 4.712% times the sum of the school formula revenue for the ESD component districts. Since SDs' share of formula revenue is 95.5%, by multiplying component school

districts' combined formula revenue by 4.172%, the aggregation of all ESDs' formula revenue becomes 4.5% of the total formula revenue, thus exhausting all ESD share (4.712% X 95.5%=4.5%).

By using school district formula revenue as the basis for allocating general services revenue, ESD equalization depends on the same factors as school district equalization. ESDs in their role of assisting component school districts are assumed to have the same relative need for funds as their school districts.

Base Revenue	=	4.712%	X	Sum of Component School Districts Revenue

Minimum Base

A district minimum allocation is $1.165 million starting from 2015-16 and fluctuates proportionately with the State School Fund. This minimum has been increasing as SSF appropriation grows in the past several years. If the base revenue allocation for an ESD is initially less than the minimum in a school year, the base is increased to that minimum.

Percent to Balance

The 4.712% of component district formula revenue uses up the 4.5% of total formula revenue available for ESDs. So, if extra funds are necessary to meet the minimum for certain ESDs, distributions to ESDs that are receiving over minimum allocations will proportionately decline to compensate for the extra funds needed for minimum receiving ESDs.

Excess Local Revenue

If an ESD's local revenue is greater than its general services revenue for a school year, the State School Fund grant is zero. Any local revenue in excess of the entitled allocation is distributed to component districts proportional to the year's extended ADMw and is included as local revenue for them for the following year.

EQUALIZATION SUMMARY

To determine general operating revenue, the first step is to allocate 95.5% of total formula revenue to each school district using the K-12 formula. The second step is to allocate to each ESD, 4.712% of its component school districts' allocation. If all ESDs receive above a minimum for a school year, the allocation from the second step is final. If there is at least one ESD receiving below the minimum in the second step, allocation process moves on to the third step. The third step is to increase any ESD allocation below the minimum to the minimum, which reduces collective allocation to ESDs receiving above the minimum. The last step is to reduce the revenue of all ESDs above the minimum by the same percentage to exhaust all remaining ESD share of the formula revenue that is net of sum of all minimum grants.

State School Fund Grant	+	Local Revenue	=	Higher of (1) Base Revenue x % to Balance (2) A Minimum

State Payment Schedule

The ESD July payment is 16.67% of the estimated State School Fund grant with 8.33% in each of the following 10 months. There is no June payment. Adjustments for audited data are made the following year. This is the same payment schedule as for school districts.

APPENDIX

Related Research Reports by the Legislative Revenue Office*

Corporate Activity Tax: Frequently Asked Questions (2020), Research Report #2-20
Oregon Public Finance: Basic Facts (2020), Research Report #1-20
Revenue Measures Passed by the 80th Legislature (2019), Research Report #3-19
K-12 and ESD School Finance: State School Fund Distribution (2010), Research Report #2-10
2009 School Finance Legislation: Funding and Distribution (2009), Research Report #8-09
Small School District Funding (2008), Research Report #4-08
Student Weights for Small Schools (2008), Research Report #3-08
2007 School Finance Legislation: Funding and Distribution (2007), Research Report #4-07
Student Weights: Individualized Education Program (2006), Research Report #7-06
Student Weights: English as a Second Language (2006), Research Report #2-06
2005 School Finance Legislation: Funding and Distribution (2005), Research Report #3-05
The Education Stability Fund (2004), Research Report #5-04
School Local Option Property Tax: Legislation and Utilization (2004), Research Report #4-04

*These publications are available at the Oregon Legislative Revenue Office website: https://www.oregonlegislature.gov/lro