K-12 And ESD SCHOOL FINANCE
State School Fund Distribution

RESEARCH REPORT # 3-04

July 2004

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STATE OF OREGON

Research Report

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BACKGROUND

This report describes Oregon's school finance system for the distribution of State School Fund dollars to K-12 school districts and Education Service Districts (ESDs). The finance system includes both state and 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. Then the report describes the rationale for the financial equity of ESDs and the method of ESD equalization.

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

In response to the Measure 5 property tax reductions, the 1991 Legislature increased state funding. This Legislature adopted a permanent K-12 equalization formula and initially 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 virtually eliminated local control over school funding.

Measure 50 during the 1997 Legislative Session continued the shift to state funding. Measure 50 (a rewrite of Measure 47) added another property tax limit more restrictive than Measure 5. Consequently, the 1997 Legislature raised the level of state funding even higher and further modified constraints to the school equalization formula.

State funding, less than 30% of State School Fund and local formula revenue in 1990-91, increased to about 70% in 1999-00. State funding is currently just under 70%. Beginning in 2005-06, the K-12 school share of this state and local formula revenue is 95% and the ESD share is the remaining 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.

"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 the K-12 school equalization formula.. The basic structure of this formula has not changed since 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 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 results or achievement levels.

The logic of funding equity is that differences in revenue resources between school districts must be justified in some rational manner. Now that the state is the primary source of 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 principles guided the development of the new formula:

- Share all school funding sources statewide.
  Method: 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 categorical grants.

- 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 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 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 towards "equity" is one snapshot in a moving picture.

Thus each district's total funding depends solely on the base funding and the cost factors. If local revenues are high, state aid is reduced to compensate. If local revenues are low, state aid is increased. In effect, the formula converts local school taxes into statewide resources. It does not matter what a district receives in property taxes or other local revenue. The only revenue that matters is the statewide total of state and local dollars.

K-12 SCHOOL EQUALIZATION FORMULA

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

Equalization Formula

The school equalization formula 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.

FORMULA REVENUE

District Formula Revenue	=	State School Fund Grant	+	Local Revenue

District formula revenue is the school district portion of the State School Fund and school district operating property taxes plus specific other minor 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.

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 revenue for distribution to both school districts and Education Service Districts (ESDs). School districts get 95% (beginning in 2005-06) of the sum of (1) State School Fund dollars available to schools and ESDs, (2) school district local revenue and (3) ESD local revenue included in the formula. Thus the share of the State School Fund for school districts is the 95% number less school district 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, but does keep its local revenue in excess of its formula amount. Two districts usually have excess local revenue.

Local Revenue

The chart lists local revenues 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.

Operating property taxes are over 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 revenue is the portion of the Fund's earnings distributed to school districts. It is a constitutional state fund for schools. County school funds are statutory funds with various revenue sources. Federal forest revenue is timber related funds of which 25% goes to schools. County trust forest revenue comes from former county timberland (mostly in Tillamook and Clatsop counties) managed by the state. ESD revenue is excess local ESD revenue (above an equalization amount) shared directly with its 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 sources included 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 interest, 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. Although each specific local revenue distribution still operates, the equalization formula cancels its effect by off-setting 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 (extended) 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. The grant accounts for about 96% of formula revenue. Thus number of students and their associated weights are a very important determinate 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 attempt 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). This becomes resident ADM (ADMr) with kindergarten students counted as half. 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) receives an extra weight of one. The total cost weight is then 2.0. In effect, one student counts as 2 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 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 a census count of 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.

- 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. These weights apply to only a few exceptions as most elementary and union high districts were required to merge into unified (K-12) districts by 1996-97.

STUDENT COST WEIGHTS

	Weight	ADMw
Special Education and at Risk		
Special education	1.00	2.00
English as second language	0.50	1.50
Pregnant and parenting	1.00	2.00
Students in poverty	.25	1.25
Neglected and delinquent	.25	1.25
Students in foster homes	.25	1.25
Grade and School		
Kindergarten	- .50	0.50
Elementary district students	- .10	0.90
Union High district students	.20	1.20
Small School	Varies	

Note: Maximum additional weight is 2.0 but not all weights are counted

- 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 school in 1995 (elementary) or 1999 (high school). Public chartered schools qualify only if a qualified small school prior to the charter. To qualify, elementary schools must be remote which is defined as more than 8 miles from the nearest elementary school. Also if small high schools merge, the combined weight for 4 years 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 juvenile detention facilities. The state provides the education programs for these students. These programs are treated as though they are special school districts. Each youth corrections student counts as two ADMw and each juvenile detention 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 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 real problem, 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 about balance out.

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

Student Target and Balancing to Available Funds

Also, 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 112% in 2003-04. Thus the $4,500 with a 112% balancing ratio is actually $5,040 with a 100% ratio.

Target Balanced	=	$4,500 Adjusted 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).

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.

Transportation Grant	=	70% to 90% of Transportation Costs

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

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. To determine which districts have a higher percentage, the average transportation cost per student is calculated for each district. Districts are then ranked from highest to lowest cost per student. The top 10% of highest cost districts qualify for 90% grants and the next 10% qualify for 80%. 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 reduces funds available for general purpose grants so that districts with 70% transportation grants receive a little less state funding.

HIGH COST DISABILITY GRANT

The high cost disability factor is actual costs above $25,000 per disability student to help compensate for the uneven distribution of high cost disability students.

During the 2001 interim, a task force studied special education. One of the task force's recommendations was to provide a grant to districts with students requiring special education services that were very costly. High cost special education students tend to be concentrated in urban areas where medical and therapeutic services are available. Thus the number of students is not proportional among districts and the cost for their education can be very 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.

The solution adopted by the Legislature was to set 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 are eligible for reimbursement. The analogy used was an insurance policy where all districts should pay and a few collect.

A district's high cost disability grant is the sum of the approved disability costs for each special education student that exceeds $25,000 per year. The school district can add ESD special education costs incurred for the same student for the student's total special education cost.

High Cost Disability Grant	=	Up to Sum of Costs above $25,000 per Disability Student

Since the data for the number of high cost students and their special education costs was uncertain, the Legislature decided to cap high cost disability grants at $12 million per year. If eligible costs exceed $12 million, the grants are proportionally reduced to total $12 million.

The high cost disability grant also sunsets at the end of 2004-05. The two year life was meant to require a review once actual data was available.

Adding a high cost disability grant to the formula reduces the general purpose grant total by the same $12 million. Thus all districts share in the cost and those with high cost disabilities 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 students populations.

Facility Grant	=	Up to 8% of Construction Costs

The facility grant is 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 grants to districts cannot exceed $17.5 million per biennium and are prorated if 8% of eligible costs exceed $17.5 million.

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

EQUALIZATION FORMULA SUMMARY

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 determinate of funding. A school district's equalization formula revenue is its State School Fund grant and local revenue. This equalization formula amount is the sum of a general purpose grant, transportation grant, high cost disability grant and facility grant. Statewide, the general purpose grant is about 95.5% of equalization funding, transportation is about 4%, and high cost disability and facility are the remaining 0.5%.

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

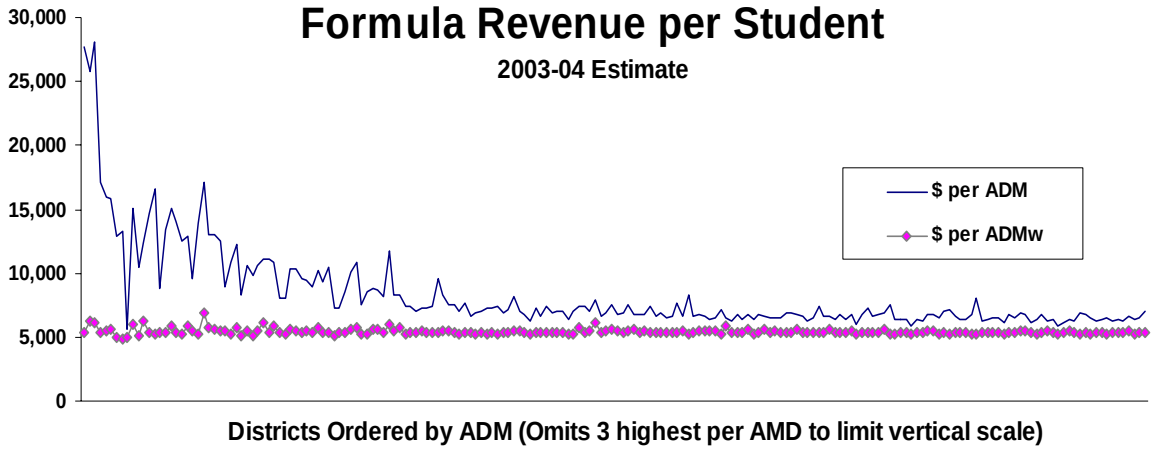
K-12 SCHOOL EQUALIZATION FORMULA

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 Disability Grant	+	Facility Grant
	70%-90% of Transportation Costs		Up to Sum of Costs above $25,000 per Disability Student		Up to 8% of Construction Costs

This is the current formula beginning in 2003-04. 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 or stop-loss grants.

The chart below illustrates how the formula generates a narrow band of revenue per weighted student which varies substantially per ADM. The four unweighted factors do vary the amount of the equalization grant per weighted student, but these factors generate a relatively smooth line per weighted student compared to the same revenue per ADM. Note that if these four factors are the same per weighted student then school district equalization funding per weighted student is identical.



Payment Schedule

Districts receive State School Fund payments according to the payment schedule listing. Using information from school districts, the 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. In legislative session years the Department revises the March estimate to the adopted appropriation and makes payments on that amount. Adjustments for prior fiscal year over and under payments based on audit reports are also made in May.

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

Out-Of-State Disability Placement

The 2003 Legislature discontinued the Out-of-State Disabilities Placement Education Fund created by the 1997 Legislature. The high cost disability grant replaced payments from this fund.

Small High School

The 2003 Legislature transferred $5 million ($2.5 million per year) from the State School Fund to the Small School District Supplement Fund in 2003-05. 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. Out of 199 school districts, about 102 school districts will qualify.

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 is a change from the prior biennium when the fund was $9 million and payment was $200 per small high school ADM per year with the remainder used for need grants based on various criteria.

State Special Education Programs

Three state education programs are funded directly out of the State School Fund. These are for students in hospitals, long-term care facilities and a deaf or blind facility. The State School Fund amount is limited to the statewide average net operating expenditure per student times the number of students served at least half a day in these three special education programs.

OTHER STATE FUNDS FOR SCHOOLS

In addition to the State School Fund, the Legislature may distribute other state funds to school districts. The 2003 Legislature did not allocate money to the School Improvement Fund. When funded, districts receive an allocation based on their prorated share of weighted students.

EDUCATION SERVICE DISTRICT EQUITY

The 2001 Legislature passed Education Service District (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. From 1991 to 2001, each Legislature provided for the distribution of State School Fund dollars to ESDs only for the next biennium. The amount was based on a percent of property tax losses due to Measure 5 and 50 until 1999. However, the issue of an imbalance in state and local revenue per student among ESDs was not 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 funding equity issue was delayed until after the completion of equalization for school district revenue.

K-12 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.

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%

The table lists the shares for the 2003-05 biennium and the permanent split beginning in 2005-06.

Equity Rationale

The second step defined ESD equity. How should the ESD portion of the total 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 somewhat as follows:

- 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
- A 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 rather than develop a separate ESD equalization formula. The recommendation to piggy-back ESD equalization onto K-12 school equalization takes into account several different measures of school financial needs shared by ESDs.

ESD EQUALIZATION
(Beginning in 2005-06)

General Services Revenue = **Percent to Balance** X **Higher of** (1) **Base Revenue** (2) **$1 million**

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. However, the allocation of revenue to an ESD does not directly use a measure of students in the ESD.

Equalization Revenue

The ESD equalization calculation determines each ESD's operating 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.

The ESD share of both school district and ESD formula revenue is 5%. Formula revenue is State School Fund dollars available for distribution to school districts and ESDs and designated local revenue (primarily property taxes) included for each in the respective formulas.

GENERAL SERVICES REVENUE

General services revenue is the sum of State School Fund revenue allocated to each 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 (see below).

Local Revenue

Local revenue is the sum of these two sources:
- Operating property tax collections (including prior years)
- State managed county trust timber (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

Base Revenue = **5.263%** X **Sum of Component School District Revenue**

The base revenue is 5.263% times the sum of the school formula revenue for the ESD component districts. With the ESD total state and local share set at 5%, the ESD percent applied to the school district 95% must be more than 5% (5.263% X 95%=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.

Minimum Base

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.

Percent to Balance

Applying the 5.263% to the sum of the component district formula revenue uses up the 5% of total revenue available for schools and ESDs. So if extra funds are necessary to meet the $1 million minimum, then the higher total must be reduced to stay within the 5% of available funds. Multiplying allocated revenue including minimums by a percent slightly less than 100% brings the total down to available funds.

Excess Local Revenue

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.

EQUALIZATION SUMMARY

General Services Revenue	=	Percent to Balance	X	Higher of	(1) Base Revenue (2) $1 million

To arrive at General Services Revenue, 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.

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.

RELATED REPORTS

The following reports deal with recent school finance legislation in more detail. The summaries are a condensed overview of the method to equalize school and ESD allocations.

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

"K-12 and ESD School Finance: State School Fund Distribution," Research Report 8-01

"2001 School Finance Legislation: Funding and Distribution," Research Report #3-01

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

"1999 School Finance Legislation: Funding and Distribution," Research Report #4-99

"1997 School Finance Legislation: Funding and Distribution," Research Report #2-98