



K-12 And ESD SCHOOL FINANCE State School Fund Distribution

**RESEARCH REPORT # 8-01
November 2001**

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STATE OF OREGON

LEGISLATIVE REVENUE OFFICE

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Research Report

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INTRODUCTION

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 phase-in 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. The K-12 share of this total is about 95.5% and the ESD share is the remaining 4.5%. Given current legislation, this ratio will become 95% schools and 5% ESDs in 2005-06.

SCHOOL DISTRICT EQUITY

The 1991 Legislature created a new measure of financial equity for school districts. This is a statutory definition of fairness applied to the financial needs of school districts. The measure of equity is the K-12 school equalization formula adopted in 1991. The basic structure of this formula has not changed since then. Using school district data, the K-12 equalization formula determines an equalization amount for each district. This amount is each school districts 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 amount and its local revenue.

Equity Principles

The logic of school 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	COST FACTORS
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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.

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 EQUALIZATION FORMULA

Formula Revenue

The equalization formula allocates state and local general operating revenue available to local school districts. Formula revenue is the K-12 formula portion of the State School Fund (95% of K-12 and ESD beginning in 2005-06) and school district operating property taxes plus certain other minor sources. Formula revenue is often referred to as an equalization grant. 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.

Cost Factors

The formula uses four different methods to adjust for cost differences among school districts:

- Weighted student count
- Teacher experience adjustment
- Transportation grant
- Facility grant.

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 (ADM_r) with kindergarten students counted as half. The ADM_r 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 ADM_w, 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 at right 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.
- Students enrolled in a small school receive a higher weight. If the small school is an elementary school, it must also be remote. The weight is based on grade level, average grade size, and distance to nearest school site. The smaller the school, the higher the weight. To qualify, elementary schools must be more than 8 miles from the nearest elementary school. 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.

STUDENT COST WEIGHTS		
	<u>Weight</u>	<u>ADMw</u>
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		

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

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

Teacher Experience Adjustment	Equals	$\$25 * (\text{District Average} - \text{State Average})$
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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 state-wide average. Statewide these district gains and losses about balance out.

Student Target and Balancing to Available Funds

Also, to 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 figure must be factored up or down

Target Balanced	Equals	$\$4,500 \times \text{Balance Ratio}$
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depending on the state appropriation and the other funds

available for allocation by the formula. This balancing ratio started out below 100%. Hence the reference to \$4,500 as a target. The balancing ratio is about 107% in 2000-01. Thus the \$4,500 with a 107% balancing ratio is actually like \$4,800 with a 100% ratio.

General Purpose Grant

The general purpose grant is weighted students (extended) times the targeted per student amount adjusted for both teacher experience and balancing to total state 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	Equals	Students (ADMw) x \$4,500 Target Adjusted by Teacher Experience & Balanced to Total Funds
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Transportation Grant

The transportation grant is 70% 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

Transportation Grant	Equals	70% of Transportation Costs
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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.

The other 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 30 cents for transportation from other funds. This was likely adopted to encourage efficiency.

Facility Grant

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

Facility Grant	Equals	Up to 8% of Construction Costs
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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 State School Fund facility grant to begin in 1999-00. The grant is for equipping and furnishing a facility, not capital construction costs that are typically funded with bonds.

Equalization Formula

The next step of the equalization formula is to calculate equalization amounts for each school district. A school district's equalization grant is the sum of its general purpose grant, transportation grant and facility grant as illustrated. It equals the combination of a district's State School Fund grant and local revenue.

K-12 EQUALIZATION FORMULA										
Equalization Grant or Formula Revenue		=	General Purpose Grant			+	Transportation Grant		+	Facility Grant
State School Fund Grant	+ Local Revenue	=	Students (ADMw)	X	\$4,500 Adjusted by Teacher Experience & Balanced to Total \$	+	70% of Transportation Costs	+	Up to 8% of Construction Costs	

This is the current formula beginning in 2001-02. The formula is permanent in the sense there is no sunset to its use, but it can be 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.

Note that only three factors vary the amount of the equalization grant per weighted student. These are the \$25 teacher experience factor, transportation costs per weighted student and construction costs per weighted student. If these three are the same per weighted student then school district equalization grants per weighted student are identical.

Equalization Grant

The equalization grant is simply the sum of the general purpose grant, transportation grant and facility grant. This equals a district's State School Fund grant and its local revenue.

State School Fund Grant

The State School Fund (SSF) grant to a school district is its equalization grant less its local revenue. If local revenue is more than the equalization amount, then the district does not receive a state school fund grant, but does keep its local revenue in excess of its equalization amount. This has happened for two districts.

In 2001-03, State School Fund grants to school districts will add up to about 95% of the State School Fund appropriation. The remaining 5% is for Education Service District equalization and other programs. While included in SSF allocations, education service districts (ESDs) are not included in the K-12 formula (refer to the ESD equalization section).

Local Revenue

The chart lists local revenues offset against a district's equalization grant. Operating property taxes are over 95% of these local revenues. One exception is Portland's property taxes for its Public Employees Retirement System (PERS) bond payment and voluntary desegregation program costs. Portland's local revenue in the distribution formula is reduced by these costs. The desegregation exclusion is limited to 3% growth a year and is repealed July 1, 2005.

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	

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 the Tillamook forest) managed by the state. ESD revenue is ESD property taxes shared directly with its component school districts by Willowa and Grant ESDs. Federal funds are not offset against state aid because federal law generally prohibits using these funds to offset ("supplant") other revenues. Other sources of local funds such as interest and public or private contributions are not included.

The equalization formula, in effect, overrides whatever formula may exist for the distribution of each of these local revenues to K-12 schools. Although each specific local revenue distribution still operates, the equalization formula cancels its effect by off setting the revenue against its equalization grant.

Payment Schedule

Districts normally 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

PAYMENT SCHEDULE	
August 15	16 2/3 %
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	25 %
	100 %

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 year over and under payments based on audit reports are also made in May.

K-12 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 grant is its State School Fund grant and local revenue. This equalization grant is the sum of a general purpose grant, transportation grant and facility grant. Statewide, the general purpose grant is about 96% of the equalization grant, transportation is 3.7% and facility is the remaining 0.3%.

OTHER STATE SCHOOL FUND ALLOCATIONS

Out-Of-State Disability Placement

The 2001 Legislature continued to fund an Out-of-State Disabilities Placement Education Fund created by the 1997 Legislature. These State School Fund dollars would otherwise be distributed by the equalization formula. Districts with disabled students in facilities in other states qualify for grants. These districts can apply for reimbursement for costs in excess of twice the district general purpose grant (4 times per unweighted student) for these students. If reimbursement claims exceed funds available, grants are prorated. The State School Fund amount has been \$800,000 per biennium beginning in 1997-99.

Small High School

The 2001 Legislature transferred transfers \$9 million (\$4.5 million per year) from the State School Fund to the Small School District Supplement Fund in 2001-03. Small school districts are districts under 8,500 weighted students with high schools having less than 350 students for 4 grades and 267 for three grades. Out of 198 school districts, about 94 school districts with 99 small high schools will qualify.

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

OTHER STATE FUNDS

In addition to the State School Fund, the Legislature may distribute other state funds to school districts. The 2001 Legislature set up a School Improvement Fund with \$220 million in the 2001-03 biennium for allocation by share of weighted students.

EDUCATION SERVICE DISTRICT EQUITY

The 2001 Legislature passed ESD revenue equalization legislation in SB 260. ESDs began receiving State School Fund dollars after 1990's Measure 5 to help compensate for property tax cuts. 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 are in the hundreds of dollars per student, but the high per student amount is over four times as great as the low amount. This is a high multiple compared to school districts. The issue was delayed until after the completion of equalization for school district revenue.

ESD Task Force

The 1999 Legislature formed a Legislative Task Force on ESDs to review ESD services and funding during the interim. Their funding recommendations were the starting point for Legislative discussions in the 2001 session.

K-12 and ESD Financial Equity

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

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

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

split of the State School Fund between ESDs and school districts.

Equity Rationale

The second step is to define ESD equity. How should the ESD portion of the total be fairly divided up among the 21 ESDs? 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 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 equalization formula rather than develop a separate ESD equalization formula. The recommendation to piggy-back ESD equalization onto K-12 equalization takes into account several different measures of school financial needs shared by ESDs.

ESD EQUALIZATION PHASE-IN

ESDs and School Districts

ESDs are distinct from school districts, but territorially are made up of school districts. The school districts within the boundary of an ESD are the ESD's component school districts. The student count for an ESD is the sum of students in its component school districts. Likewise, the extended average daily membership weighted (ADMw) of an ESD is the sum of this measure for the ESD's component districts.

Equalization Phase-in

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

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

Revenue Base

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

Equalization Target

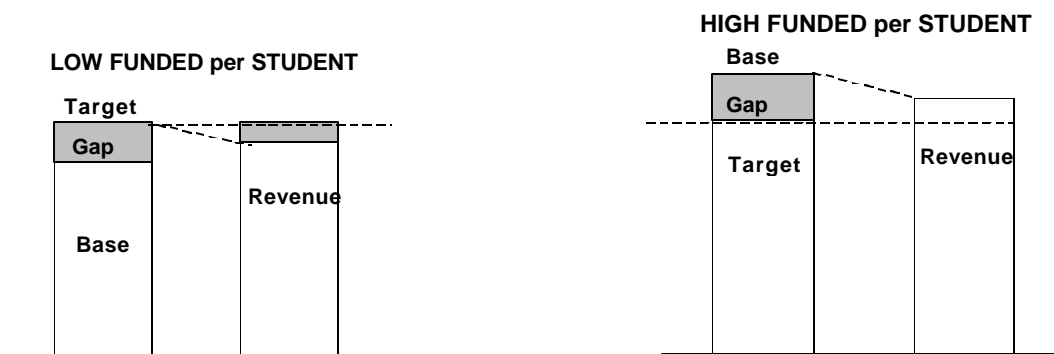
The equalization target for an ESD is a percent of the calculated K-12 equalization formula revenue for component districts. The first step is to take the K-12 percent of the total state and local revenue available for school districts and ESDs. The next step is to allocate this K-12 amount to school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

Year	ESD Share Of Total	ESD Share Of K-12
2001-02	4.66%	4.888%
2002-03	4.64%	4.866%
2003-04	4.75%	4.987%
2004-05	4.85%	5.097%
2005-06	5.00%	5.263%

The equalization target is phased-in at the rate shown in the table to gradually increase to the equivalent of 5% of total revenue. In 2005-06 the target becomes the on-going equalization level. For example, in 2001-02 the ESD share is 4.66% of the total or its equivalent of 4.888% of the school district's 95.34% share. Phased-in equalization in 2001-02 would mean each ESD receives 4.888% of its component school districts' calculated revenue allocation. The 2001-02 revenue target for an ESD is this equalization amount.

Revenue Gap

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



Base Adjustment

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

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

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

For low funded ESDs, revenue is the base plus a percent of the gap. The percent depends on the residual ESD state and local funds available for allocation. The percent has to be calculated each year. There are no limits or constraints. The estimated addition to the base is about 29% of the gap in 2001-02.

General Services Revenue

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

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

A final percentage adjustment to general service revenue is necessary to make total funds allocated equal to funds available. This slightly reduces the allocation of all ESDs to make revenue available equal revenue allocated including the minimum.

The State School Fund distribution to each ESD is simply this final general service revenue less its local revenue.

Local revenue is ESD operating property taxes and a minor amount of forest revenue. ESDs do not have the same local revenue sources as school districts.

Phase-in Formula

A general mathematical representation of the formula is as follows:

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

(-) (Target - Base) if Below Minimum

Final Equalization

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

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

MEASURING THE PROGRESS OF ESD EQUITY

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

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

Reduction in Absolute Difference

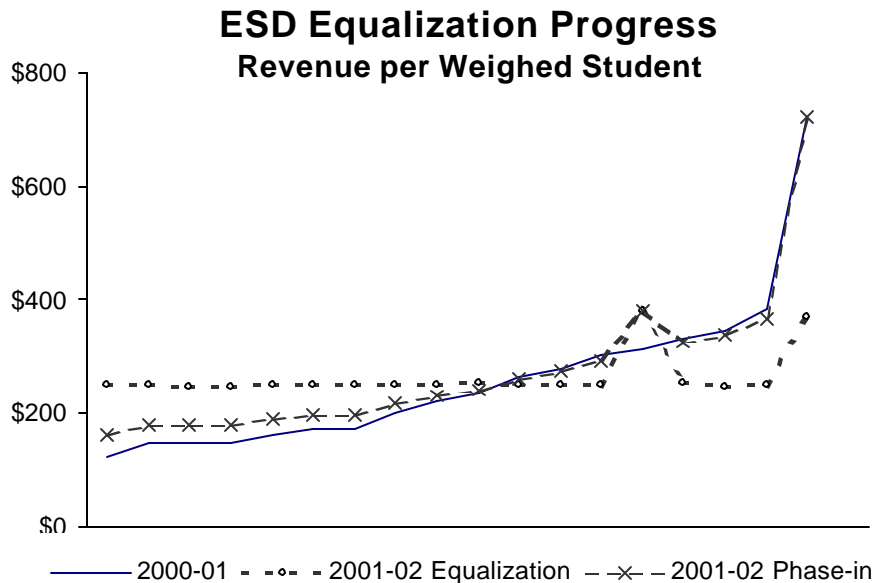
In 2001-02 the total statewide absolute difference between the estimated distribution and the equalization formula is about \$42.7 million. This is about 26.5% of ESD state and local funds in 2001-02.

In 2002-03 the estimated total absolute difference between the constrained formula and the equalization formula will be less. The difference as a percent of state and local revenue

distributed will also be a smaller than in 2001-02. By this method, a percent of the "inequity" that exists in 2001-02 will be measurably decreased.

A Picture of Progress

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



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

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

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

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

RELATED REPORTS

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

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