

K-12 SCHOOL FINANCE

State School Fund Distribution

INTRODUCTION

This report describes Oregon's current K-12 school finance distribution system. The report focuses on existing legislation that will allocate State School Fund dollars in the 1999-01 biennium prior to any changes by the 1999 Legislature. Both local K-12 school districts and Education Service Districts received these funds in recent years. The first section explains the permanent equalization formula and its constraints for K-12 school districts. The next section covers state funding for Education Service Districts. The last section reports on the progress toward school funding equity.

Voter approval of Measure 5 in 1990 dramatically changed Oregon's school finance system. Measure 5 phased in property tax limits for schools that substantially reduced local property taxes for schools. Consequently the 1991 Legislature increased state funding and passed a new school distribution formula. By the end of the 5-year tax limit phase-in, the state primarily funded the school system and virtually eliminated local control over school funding.

Voter approval of 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. In response, the 1997 Legislature raised the level of state funding even higher and further modified the school distribution formula. State funding, less than 30% of school general operating revenue in 1990-91, increased to about 70% in 1998-99. Measure 50 allows the Legislature to approve a local option property tax between Measure 5 and 50 limits. The Legislature granted a conditional approval, but the condition was not met.

The current finance system is the legacy of these constitutional measures, the consequent funding shifts and a 1997 circuit court decision on the implementation of the permanent formula.

PERMANENT EQUALIZATION FORMULA

The 1991 Legislature created a new formula for distributing state aid to K-12 education. The basic structure of this formula has not changed since then. Using school district data, the formula determines an equalization grant for each district. The combination of the state grant and local revenue equals a measured financial need. The formula is permanent in the sense there is no sunset to its use. This equalization grant would be the only grant option if past Legislatures had not continued temporary constraints to the equalization grant.

FORMULA LOGIC

The logic of the new formula 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 variations in resources among districts that existed prior to the passage of Measure 5 must be either justified or eliminated.

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. This results in the following general formula:

STATE AID TO DISTRICT	+	LOCAL REVENUES	=	NUMBER OF STUDENTS	×	BASE FUNDING PER STUDENT	×	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 is based 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. The only revenue that matters is the statewide total of state and local dollars.

FORMULA DESCRIPTION

General Operating Revenue

The permanent formula allocates state and local general operating revenue available to local school districts. General operating revenue is the K-12 formula portion of the State School Fund and local school district operating property taxes and certain other sources. Local revenue stays with the district where collected, but is treated like a state resource. General operating revenue 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 three different methods to adjust for cost differences:

- Weighted student count
- Teacher experience adjustment
- Transportation grant

Weighted Student Count

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

The student counts begin 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 a cost weight of 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 national studies that showed districts were on average spending about twice the norm for services to special education students. Although some IEP 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 permanent 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.

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
Remote Small School	Varies	
Note: Maximum additional weight is 2.0 but not all weights are counted		

- 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 remote small school receive a higher weight. 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 and secondary schools more than 10 miles from the nearest 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.

Weighted students in the formula include the Youth Corrections Education Program (YCEP) students. This agency program is treated as though it is a special school district. Each student counts as two ADMw.

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 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 balance out.

Also, to make the formula easier to understand, the pre-adjustment base funding per student was arbitrarily set in law at \$4,500. However, this figure must be factored up or down depending on the state appropriation and the other funds available for allocation by the formula.

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 schools, on field trips, and for other reasons in special cases. This grant is similar to the 60% transportation reimbursement provided in the pre-Measure 5 formula.

Local Revenue

The chart lists local revenues offset against state aid. 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
Private timber taxes
Common School Fund
County School Fund
Federal forest fees (school 25%)
County trust forest revenues
ESD equalization revenues
Supplantable federal funds
Payments in-lieu of property taxes

Private timber taxes are the western and eastern Oregon privilege taxes on the value of harvested timber. County trust forest revenue is revenue from former county timberland (mostly the Tillamook forest) managed by the state. ESD equalization revenue is ESD property taxes shared directly with its component school districts. Some federal funds are not offset against state aid because federal law 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 SSF formula, in effect, overrides whatever formula may exist for the distribution of each of these local revenues to K-12 schools. Although each specific formula still operates, the SSF formula cancels its effect by offsetting the revenue against state aid.

Permanent Formula

The final form of the permanent formula to calculate equalization grants for each school district is:

EQUALIZATION GRANT FORMULA

STATE SCHOOL FUND GRANT	+	LOCAL REVENUE	=	STUDENTS Extended ADMw	X	\$4500 adjusted by teacher experience and to total funds	+	70% TRANSPOR- TATION COSTS
General Operating Revenue		General Purpose Grant				Trans. Grant		

This is the current permanent formula for use in the 1999-01 biennium if no changes are enacted by the 1999 Legislature. Under current law however, the permanent formula will not be without constraints until 2001-02. The next topic describes these temporary constraints for the 1999-01 biennium.

The state portion of total funds in the formula is the State School Fund available for K-12 after transportation and facility grants, ESD allocations and any other reductions. While included in SSF allocations, education service districts (ESDs) are not included in the permanent formula. In recent years they had their own separate temporary distributions.

TEMPORARY FORMULA CONSTRAINTS

Background

Since its inception, the permanent equalization grant was constrained by amounts a district could gain or lose from one year to the next or by minimum grants greater than the equalization grant. These constraints were temporary. The 1997 Legislature continued the two minimum constraints enacted in 1995. A modified flat grant per student and district stop-loss grant constraint continue for the 1999-01 biennium. Districts still receive the highest of these three grants: (1) equalization grant, (2) flat grant and (3) stop-loss grant. Each grant is a separate calculation. The major 1977 legislative modification was to phase down the additional revenue the two minimum constraints provided above the equalization grant. The 1997 legislation phases down state and local revenue from these minimum constraints to \$4,800 per student in 2000-01.

In this section student means weighted average daily membership (ADMw) extended. State and local revenue refers to revenue for general operation purposes. The base year used to calculate the constraints is 1998-99.

1999-01 Constraints without Cap

In order to phase down the constraints over 3 years, the 1997 Legislature had to extend the constraints beyond 1997-99 to include 1999-01. This is the first extension of temporary constraints beyond one biennium. The flat grant and stop-loss constraints use 1998-99 as the base year.

The flat grant per student equals the 1998-99 state and local revenue per student from that year's unconstrained allocation. The 1998-99 limit per student is \$6,080. This is prior to calculating a cap if over \$4800 per student. The calculation below is for each district.

1999-00 FLAT GRANT (No Cap)

State Grant	+	Local Revenue	=	(1998-99 State Grant and Local Revenue per Student)	X	1999-00 Students
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The flat grant for 2000-01 is the same 1998-99 per student amount times the 2000-01 number of students.

The stop-loss grant equals the district's 1998-99 state grant and local revenue from that year's unconstrained allocation. A district's minimum state and local amount cannot be less than in 1998-99 in each year of the biennium. This is prior to calculating a cap if over \$4,800 per student.

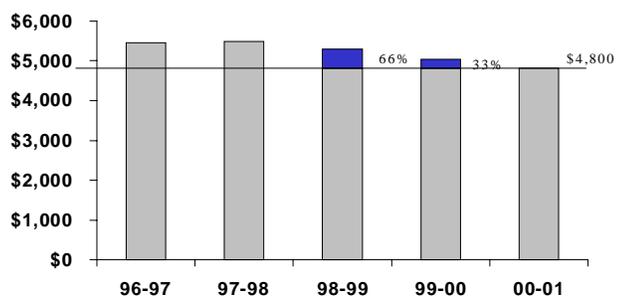
1999-00 STOP-LOSS GRANT (No Cap)

State Grant	+	Local Revenue	=	1998-99 State Grant and Local Revenue
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1999-01 Constraints with Cap

The intent of the 1997 legislation is to gradually reduce per student revenue for districts benefiting from the temporary constraints while the equalization grant brings lower revenue districts up to or above \$4,800 per student. The phase-down eases flat and stop-loss grant districts into equalization grant districts. The chart illustrates this phase-down.

FLAT GRANT DISTRICT ABOVE CAP



The flat and stop loss grants are initially limited to a \$4,800 cap per student. If a district is above this amount in 1999-00, its per student grant is reduced by 66.6% of the difference between the grant with and without a \$4,800 cap per student. This is the same as adding 33.3% of the difference to \$4,800 for the final flat or

stop-loss grant. The total grant is the number of students times the per student cap. This per student reduction is the second year of the three-year phase-down.

1999-00 PER STUDENT FLAT AND STOP-LOSS CAP

State and Local Revenue Per Student	=	\$4,800	+	33.3%	X	(State Grant and Local Revenue per Student (No Cap)	-	\$4,800)
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The phase-down ends in 2000-01 when \$4,800 is the per student cap. Subsequently all districts are equalization districts unless the Legislature extends constraints.

OTHER K-12 ALLOCATIONS

New Facility Grant

The 1997 Legislature established a new State School Fund facility grant beginning in 1999-00. The grant is for equipping a facility, not capital construction costs. The grant is 6% 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 \$10 million per biennium and are prorated if 6% of eligible costs exceed \$10 million. The State School Fund is the source of the \$10 million per biennium for these grants.

Out-Of-State Disability Placement

The 1997 Legislature created an Out-of-State Disabilities Placement Education Fund. These funds 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 allocation (excluding transportation) for these students. If reimbursement claims exceed funds available, grants are prorated. Some funds will be left over from the 1997-99 biennium transfer of \$800,000 from the State School Fund. Additional funding will require a new transfer.

K-12 SUMMARY

State and Local Support

The school district state aid from the State School Fund and local revenue is the highest of the (1) equalization grant, (2) flat grant capped and (3) and stop-loss grant capped plus any state facility grant and out-of-state disability placement funds.

Payment Schedule

Districts normally receive SSF 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 year over and under payments based on audit reports are also made in May.

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	<u>25</u> %
	100 %

ESD DISTRIBUTION

1999-01 Biennium

There is no distribution method for any State School Fund dollars allocated to Educational Service Districts. The Legislature has not adopted an ESD permanent formula. Beginning in 1991, each Legislature provided for the distribution of SSF dollars to ESDs only for the next biennium based on a percent of property tax losses due to Measure 5 and 50.

1998-99 Method

The 1998-99 distribution method changes because a Measure 5 loss is no longer available. The intent was to duplicate 1997-98 using estimated property tax losses. This resulted in total state funding being set at 7.46% more than in 1997-98. In 1998-99 each ESD receives the same percent of total state funds and ESD imposed property taxes as in 1997-98. A district's state aid is the district's share of this total less its imposed property tax.

Other ESD Funding

The 1997 Legislature set aside \$1 million per year of 1997-99 State School Fund money for ESD network technology. The funds go to the Oregon Public Education Network Steering Committee of the ESD association, not directly to ESDs. The funds are to maintain network operations, develop electronic teaching aids, train network users and design a technical center. To continue this policy will require a new SSF amount set aside.

DISTRIBUTION EQUITY

K-12 SCHOOL DISTRICTS

By any measure, the state has eliminated most of the differences in school funding that existed before Measure 5. A more precise statement requires a definition of "equity". "Equity" does not necessarily mean that all districts get the same funding per student. 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 could disagree.

For purposes of this review, assume the current permanent equalization formula is the legislatively adopted definition of equity. This means 100% equity would be achieved if the permanent equalization formula operates without constraints. It also means the factors in the permanent equalization formula define "equity". These factors can change over time and will no doubt be periodically reviewed and changed by future legislatures. Thus "equity" is an evolving target over time, and this analysis of the movement towards "equity" is one snapshot in a moving picture.

Reduction in Absolute Difference

In 1991-92 the total statewide absolute difference between the actual distribution and the equalization formula was about \$303 million. This is about 13.2% of the state and local funds distributed to schools in 1991-92.

In 1998-99 the estimated total absolute difference between the constrained formula and the permanent formula will be about \$16 million. This is just over 1/2% of state and local revenue distributed in 1998-99. By this measure, 96% of the "inequity" that existed before Measure 5 has been eliminated. By 2000-01 the phasing down and final \$4,800 per student cap on constraints will virtually achieve equity. In 2001-02 there are currently no constraints so the permanent equalization formula provides full equity.

Reliance on Constraints

Another way to show the progress toward equity is to look at how many districts rely on the constraints for their funding. The table at right shows the percent of weighted students in districts funded by the equalization formula and by minimum constraints. Changes in the permanent equalization formula

Student Funding Method		
	1992-93	1998-99
Equalization Formula	71%	93%
Minimum Constraints	29%	7%
	100%	100%
Formula and constraints are different but comparable in these two years.		

explain part of this progress. For example, excluding Portland's PERS bond and desegregation costs from local revenue helped Portland switch from a flat grant to an equalization district in 1997-98.

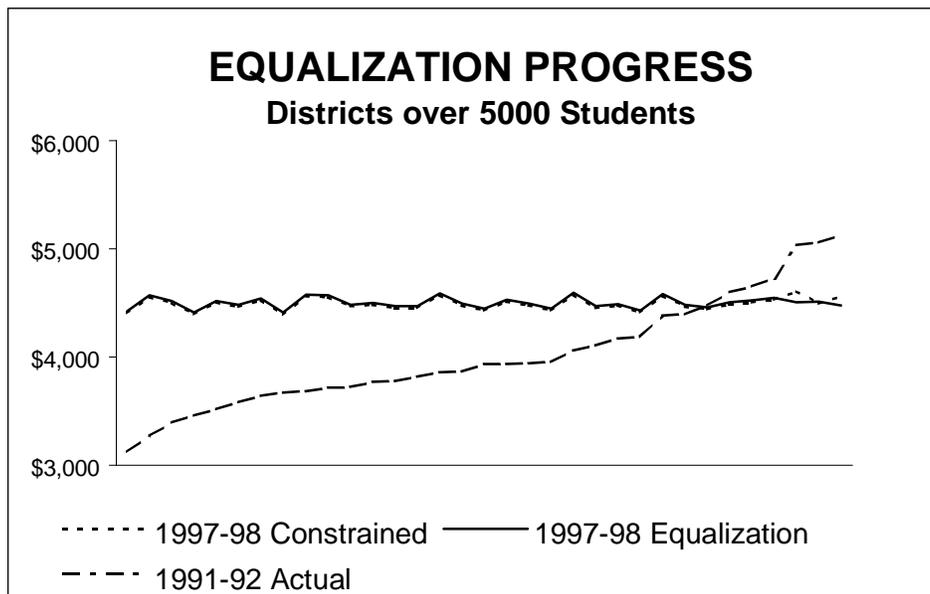
A Picture of Progress

The graph below demonstrates the progress toward equity. The graph shows the per student funding level of each district in the state that enrolls over 5,000 students. In 1991-92, the funding level varied from just over \$3,000 per student to over \$5,000 per student. The dashed line labeled "1991-92 Actual" represents this.

The solid line represents the permanent equalization formula in 1997-98. The other dashed line labeled the actual constrained distribution is almost indistinguishable from the equalization line. Only two large districts remain above the equalization line, and they are only slightly above it.

The graph also hints at how equity was achieved over the six-year period. In general, higher revenue districts were frozen with no adjustment for inflation and, in addition, took a 5% cut in 1993-94. New revenue was dedicated to the equalization formula. In effect, districts were denied funding increases until the equalization level rose to their level. In addition, some districts are operating on less funding per student than they had in 1991-92.

Finally, note that the equalization line is not flat. This shows that "equity" is not the same dollar amount per student for all districts.



ESDs

The Legislature has not defined an equity formula for ESDs. The K-12 analysis above excludes Education Service Districts. Before Measure 5 ESD property taxes per student varied substantially. Since Measure 5 the Legislature has funded ESDs with temporary property tax loss replacement. The result is ESD property tax and state funds per student still vary 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.